



## Discussion and Analysis of Operations

# Discussion and Analysis of Operations – Introduction

HUD's programs fall into three categories:

***The Federal Housing Administration (FHA);***

***The Government National Mortgage Association (Ginnie Mae); and***

***HUD's grant, subsidy, and loan programs.***

*This section discusses the performance by the major programs in addressing each of HUD's priorities.*

- HOME Investment Partnerships;
- Public and Indian Housing Grants and Loans;
- Operating Subsidies for Public Housing Agencies; and
- Housing for the Elderly and Disabled.

## FHA and Ginnie Mae

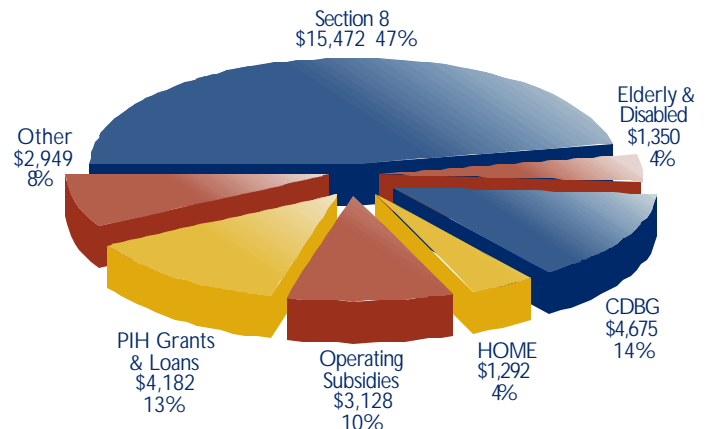
The objectives of programs carried out by FHA and Ginnie Mae relate directly to developing affordable housing. Accordingly, the discussions of these programs are in the "Increase Homeownership Opportunities, Especially in Central Cities, through a Variety of Tools, such as Expanding Access to Mortgage Credit" section of this report.

## Grant, Subsidy, and Loan Programs

HUD's grant, subsidy, and loan programs relate to all six HUD priorities and are, therefore, addressed throughout the remainder of the Discussion and Analysis section of this report. HUD's most significant grant, subsidy, and loan programs, in terms of expenses, are:

- Section 8 Lower Income Rental Assistance;
- Community Development Block Grants;

**Grant, Subsidy, and Loan Programs  
Expenses for FY 1998**  
(Dollars in Millions)



The consolidating financial statements provide information for each of the above programs. Total expenses during FY 1998 for HUD's grant, subsidy and loan programs totaled \$33.0 billion.

Several of HUD's subsidy programs provide assistance for the purchase or rental of housing units. The following shows the number of housing units eligible for HUD assistance during the last five years (FY 1998 information is estimated).

# DISCUSSION AND ANALYSIS OF OPERATIONS

## Total Number of Housing Units Eligible for HUD Assistance During the Last Five Fiscal Years

Program	1994	1995	1996	1997	1998
<b>HUD's Major Assistance Programs</b>					
Section 8 Lower Income Rental Assistance Program:					
Tenant-based Assistance	1,477,942	1,397,747	1,451,397	1,460,899	1,605,898
Project-based Assistance	1,448,017	1,513,945	1,506,765	1,482,735	1,395,037
Total Section 8	2,925,959	2,911,692	2,958,162	2,943,634	3,000,935
Public Housing Programs	1,409,455	1,397,205	1,388,746	1,372,260	1,295,437
	4,335,414	4,308,897	4,346,908	4,315,894	4,296,372
<b>Other Assistance Programs</b>					
Homeownership Assistance Program (Section 235)	80,365	76,092	68,473	60,810	52,713
Rental Housing Assistance Program (Section 236)	504,966	508,353	505,305	494,121	476,451
Rent Supplement	18,808	20,860	20,860	20,860	20,860
	604,139	605,305	594,638	575,791	550,024
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)	(190,140)
<b>TOTAL</b>	<b>4,749,413</b>	<b>4,724,062</b>	<b>4,751,406</b>	<b>4,701,545</b>	<b>4,656,256</b>

# Increase Homeownership Opportunities, Especially in Central Cities, Through a Variety of Tools Such as Expanding Access to Mortgage Credit

This section covers the following major programs:

***Federal Housing Administration (FHA)***

***Government National Mortgage Association (Ginnie Mae)***

HUD offers a variety of programs that are focused on increasing homeownership opportunities for all Americans. In 1998 the U.S. homeownership rate reached 66.3 percent, the highest annual rate in American history. At the end of 1998, 69.1 million families owned homes. This is a 7.3 million increase over the number in 1993.

HUD has contributed to this growth by the wide range of programs it offers to promote homeownership. For example, FHA provides mortgage insurance to those individuals that would not be served by the conventional mortgage markets. Ginnie Mae guarantees mortgage securities sold in the secondary market, which helps provide liquidity to lenders.

## Federal Housing Administration

In 1934, as a result of the great depression, the housing industry was stagnant. Two million construction workers had lost their jobs and homebuyers seeking credit could only get loans for up to fifty percent of value, for terms no longer than five years. With the National Housing Act of 1934, Congress established the Federal Housing Administration (FHA), a wholly-owned government corporation, to stabilize the mortgage market and to provide an adequate home financing system through the insurance of mortgages. The National Housing Act also gave FHA the task of improving housing standards and conditions.

In the forties, FHA programs helped to finance military housing and then homes for returning veterans and their families. In the fifties and through the seventies, FHA stimulated production of millions of units of privately owned apartments for elderly, disabled, and lower income Americans. When rising inflation and energy costs of the seventies threatened the economic viability of thousands of private apartment buildings, FHA's emergency financing kept cash-strapped properties afloat. When a deep recession prompted private mortgage insurers to pull out of oil producing states in the eighties, FHA stepped in to stabilize falling home prices and ensure that purchasers could find financing for homes they wanted to buy.

FHA has been extremely successful in achieving its mission of supporting the availability of capital for single family homeownership and for the development of affordable rental housing. For over 60 years, FHA has been a persistent force in stabilizing the housing markets and providing homeownership opportunities. In addition, FHA has introduced innovations to the housing finance industry to serve markets otherwise overlooked by the private sector. As a result, FHA has improved communities through the expansion of housing and health care opportunities across the country and contributed to the stability of the mortgage and capital markets.

## FHA Funds

The FHA Insurance Fund is comprised of four sub-funds:

**The Mutual Mortgage Insurance (MMI) Fund** supports FHA's basic single family home ownership program. Historically this fund has been self-sustaining.

**The General Insurance (GI) Fund** supports a variety of multifamily and single family insured

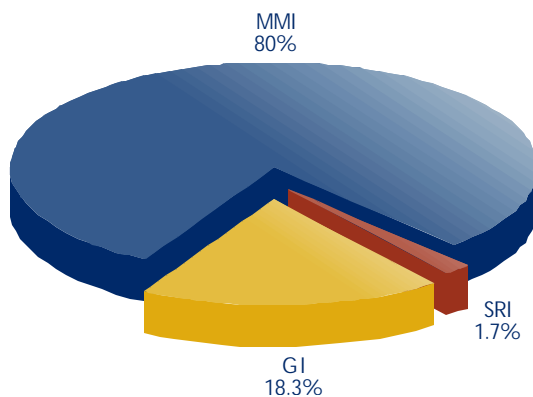
## DISCUSSION AND ANALYSIS OF OPERATIONS

loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement and manufactured housing (Title I), and disaster assistance.

**The Special Risk Insurance (SRI) Fund** supports multifamily rental projects and loans to high-risk borrowers. In the past, many of these projects have been eligible for subsidized interest rates.

**The Cooperative Management Housing Insurance (CMHI) Fund** supports insurance on market-rate cooperative apartment projects. This fund has historically been self-sustaining. The fund is no longer active, except for refinancing.

**FHA Insurance Funds**  
As of September 30, 1998



*Note: The CMHI fund comprises approximately 0.05 percent of the FHA insurance fund.*

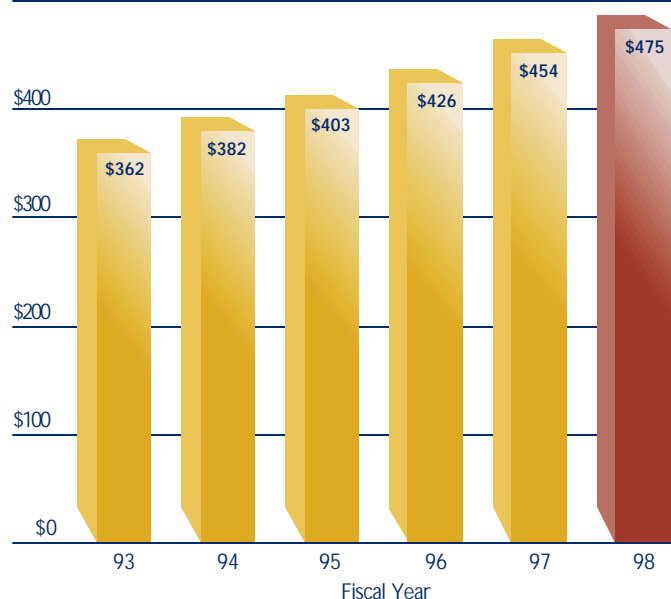
### Insurance-In-Force

As of September 30, 1998, the total mortgage insurance-in-force in the FHA Fund was \$475 billion. This represented an increase of approximately \$21 billion over FY 1997 insurance-in-force. Specifically, the MMI Fund increased by \$20 billion and the GI Fund increased by \$2 billion, while the SRI Fund decreased by approximately \$1 billion.

FHA's single family mortgage insurance business comprised 87.8 percent of its insurance-in-force. The multifamily and health care insurance comprised 11.0 percent. Title I property improvement and manufactured home insurance comprised the remaining 1.2 percent.

**FHA Insurance in Force**  
as of September 30th

Dollars in Billions  
\$500



### Secretary-Held Mortgage Notes

The Secretary acquires notes when a multifamily lender assigns a delinquent mortgage. Legislation was passed recently that will allow FHA to acquire single family notes by paying a claim prior to foreclosure and taking the mortgage note instead of the property. In the past, FHA also acquired notes through the single family assignment program.

This program was discontinued in April 1996 and in FY 1998 the final notes in the pipeline were assigned to FHA. Between FY 1994 and 1997, FHA sharply reduced its single family, Title I, and multifamily note inventories, primarily through bulk note sales. Specifically, in FY 1998, 7 multifamily notes were sold individually. No single family notes sales were held.

**FHA Note Inventory As of September 30th**  
(Dollars in Billions)

	1994	1995	1996	1997	1998
Single Family	4.278	4.774	3.023	0.677	0.731
Title I	0.366	0.380	0.294	0.356	0.497
Multifamily & Health Care	7.308	5.916	3.259	2.256	2.108
<b>TOTAL</b>	<b>11.952</b>	<b>11.070</b>	<b>6.576</b>	<b>3.289</b>	<b>3.336</b>

# INCREASE HOMEOWNERSHIP OPPORTUNITIES

Between FY 1997 and 1998, the overall unpaid principal balance (UPB) of Secretary-held mortgage notes increased slightly to \$3.336 billion from \$3.289 billion. While the amount of multifamily and health care notes held declined by an additional 7 percent in FY 1998, single family notes held increased by 8 percent.

## Secretary-Held Foreclosed Properties

### Secretary-Held Property Inventory as of September 30th (Dollars in Billions)

	1994	1995	1996	1997	1998
Single Family	2.144	1.803	1.850	2.418	3.254
Multifamily	0.712	0.535	0.490	0.355	0.376
TOTAL	2.856	2.338	2.340	2.773	3.630

*Figures reflect acquisition and holding costs.*

FHA acquires single family properties through conveyance claims. FHA also acquires properties when FHA forecloses on single family or multifamily notes that were acquired through assignment. After declining to \$2.3 billion in FY 1995 and 1996, HUD's Secretary-held property increased to \$2.8 billion in FY 1997 and \$3.6 billion in FY 1998. While the inventory of multifamily properties declined steadily between FY 1994 and 1998 from 121 to 50, the inventory of single family properties has increased sharply from 27,354 to 39,370.

Part of the increase can be attributed to the termination of the single family note assignment program. In addition, conveyance claims have increased due to high claim rates among borrowers in Southern California, especially those who selected adjustable rate mortgages (ARMs) to make homebuying more affordable. On March 3, 1998, FHA revised its ARM underwriting guidelines to terminate the use of ARMs with interest rate buydowns, a sales practice prevalent in areas undergoing house price declines. It also required borrowers seeking mortgages with loan-to-value ratios exceeding 95 percent to qualify at one percentage point over the initial contract rate. This change has the effect of reducing the use of ARMs by marginally qualified borrowers. Both of these changes should reduce the frequency of ARM claims in the future.

## FHA Assets and Liabilities

As of September 30, 1998, FHA assets consisted of investments totaling \$14.1 billion, a fund balance with U.S. Treasury of \$6.6 billion, and receivables totaling \$3.3 billion. Its liabilities consisted of loan guarantee liabilities totaling \$9.4 billion, borrowing from the U.S Treasury of \$6.6 billion, payables totaling \$738 million, unearned premiums totaling \$891 million, and premium refunds and distributive shares payable totaling \$205 million.

## Liability for Loan Guarantee

The liability for loan guarantee (LLG) related to Credit Reform loans (made after October 1, 1991) is comprised of the present value of anticipated cash outflows for defaults, such as claim payments, premiums refunds, property expense for on-hand properties and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales and principal and interest on Secretary-held notes. The pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for probable defaults.

The portion of the liability attributed to the pre-1992 insurance-in-force reflect relationships between a set of financial ratios and assumed risk, whereas the liability for the post-1991 originations is based on statistical risk. In FY 1998, FHA's loan guarantee liability was \$9.4 billion. The liability represents the net present value of the future cash flows associated with \$475 billion in insurance-in-force.

## Credit Reform Appropriations

The MMI insurance fund generates enough premium income to more than cover the costs of the losses. However, GI and SRI insurance premiums are not sufficient to cover losses or to sustain the operations of these Funds. As a result, the GI and SRI Funds receive appropriations for positive credit subsidy. Between FY 1997 and FY 1998,



## DISCUSSION AND ANALYSIS OF OPERATIONS

appropriations needed for new insurance in the GI and SRI Funds declined from \$85 million to \$81 million. GI and SRI administrative expense appropriations for FY 1997 and FY 1998 were \$203 million and \$222 million, respectively.

The Federal Credit Reform Act of 1990 requires periodic re-estimates of the subsidy cost of a credit program throughout the lifetime of loan guarantee. To cover any increase in the subsidy cost resulting from the re-estimate, the Federal Credit Reform Act provides for permanent, indefinite budget authority. These funds are available without further action by the appropriations committees. The cash flow models used to calculate the FY 1998 subsidy expense re-estimate are substantially different from the models used to calculate the FY 1997 re-estimate on September 30, 1998. This re-estimate was \$2.01 billion. If calculated with revised models and new financial data, the 1997 re-estimate would have been \$3.39 billion. As a result, the FY 1998 re-estimate was \$3.3 billion, which includes \$1.38 billion associated with the FY 1997 re-estimate.

The MMI programs produced negative credit subsidy through new insurance. Administrative expenses for the MMI Fund are covered by appropriations that are derived from subsidy generated by new insurance operations. In FY 1997 and FY 1998, \$351 million and \$338 million were used for MMI administrative expenses, respectively.

### Borrowings

During FY 1998, FHA borrowed \$3.37 billion from the U.S. Treasury for the MMI and GI and SRI Funds to cover the FY 1997 re-estimates of the expected costs associated with insuring mortgages. In addition, the Federal Credit Reform Act requires FHA to borrow the negative subsidy generated from insuring new business at the time the insurance is provided and to repay these borrowings as premiums are earned. FHA repaid \$425 million in prior year borrowings related to the MMI and GI and SRI Funds.

### Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by the MMI Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Premiums associated with Credit Reform loans are included in the calculation of the LLG and are not included in the unearned premium amount. At the end of FY 1998, the balance of unearned premiums is \$891 million that includes \$774 million for the MMI/CMHI Fund. During FY 1998, FHA conducted a study of the unearned premium reserve that resulted in a decrease in unearned premium and an increase in premium revenue of \$471 million. The high volume of prepayments experienced in FY 1998 led to this result.

### MMI Capital Ratio

The National Affordable Housing Act of 1990 requires an independent actuarial analysis of the economic net worth of the MMI Fund. The Act also mandates that the MMI Fund achieve a capital ratio (a measure of the Fund's cushion against unexpected insurance losses) of at least 2.00 percent by the year 2000. The cushion ensures that FHA's basic single family insurance program could withstand unexpected losses without exposing the taxpayers to financial risk.

The 1998 analysis indicates the Fund's capital ratio was 2.71 percent at the end of FY 1998, compared to 2.81 percent at the end of FY 1997. The study indicates that the MMI Fund's projected capital ratio for the year 2000 is 3.40 percent, far exceeding the congressionally mandated ratio of 2.0 percent by the year 2000.

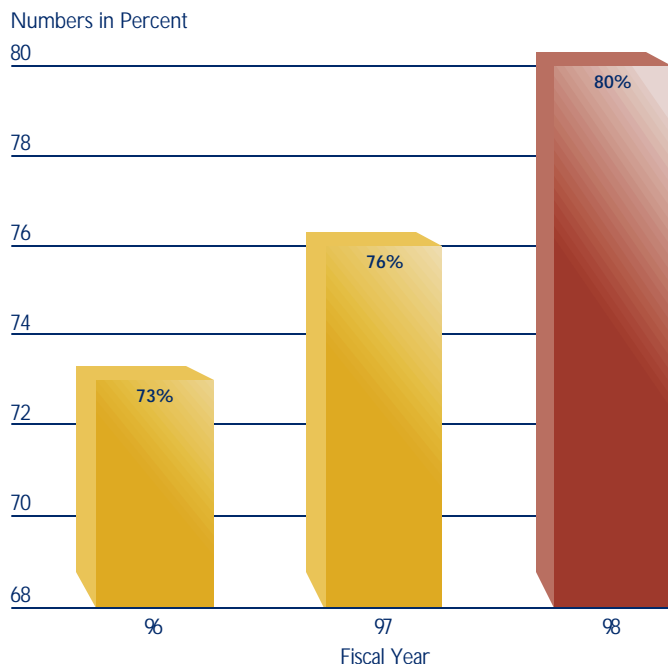
### First-Time Homebuyers

FHA's primary mission is to assist first time homebuyers access mortgage credit. These homebuyers traditionally have difficulty in accumulating the liquid assets required to close the transaction or the downpayment funds required to obtain conventional financing. The Department is proud that

# INCREASE HOMEOWNERSHIP OPPORTUNITIES

during FY 1998, it exceeded its goal of providing mortgage insurance on behalf of citizens purchasing their first home by over 5 percent. During the year, 80 percent of the FHA insured single family mortgages endorsed were for first-time buyers. This translated into over 671,200 families who were able to purchase their first home because of the FHA.

FHA Single Family Mortgages  
Endorsed for First-Time Buyers



FY 1998's result continues the increasing trend in the share of first-time homeowners which was 76 percent in FY 1997 and 73 percent in FY 1996. These increases can be attributed to the Department's aggressive marketing and outreach efforts through such vehicles as the HELP Program and Home-Buyer Fairs as well as the use of auctions and special promotions for REO sales. This increase represents a trend that the Department expects to continue.

## Single Family Non-Profit Sales

HUD-owned properties which are sold to non-profits at a discount ranging from 10 to 30 percent, fulfill a significant and important Departmental objective of providing homeownership opportunities for low and moderate income families. The non-profits which purchase and often rehabilitate

these properties are required to pass through the discounts they have received to purchasers, thereby making the home affordable and available to low and moderate income families.

The Department sold 5,817 HUD owned properties to non-profit housing providers in FY 1998, compared to 3,877 in FY 1997 and 3,403 in FY 1996. This program provides an attractive and useful method for non-profits to fulfill their mission of affordable housing. FHA expects this trend to continue. The FY 1998 sales total represented over 270 percent of the performance goal for the year.

## Section 203(k)

The 203(k) program is an example of the FHA's role as a market innovator and leader. The program allows a borrower to finance the purchase and rehabilitation of a single family property with one mortgage loan which is insured by the FHA. FHA serves a significant role in this market since conventional construction financing for rehabilitation loans is extremely difficult. This program also facilitates FHA's mission to rebuild the housing stock in the country's aging cities.

The number of Section 203(k) loans endorsed increased from 8,288 in FY 1995 to 17,309 in FY 1996 and to 18,968 in FY 1997, but then decreased in FY 1998 to 14,202. As awareness of this program continues to expand, we expect participation to increase.

## Material Weaknesses

The Department has identified two material weaknesses pertaining to FHA.

The first material weakness relates to the need for FHA to review its staffing levels, assess the skills of its workforce versus skill needs, and assess the training resources under the current initiatives to streamline work into the Single Family Home Ownership Centers, and to reengineer multifamily operations. FHA's planned implementation of the HUD 2020 Management Reform Plan will address this weakness. Under this plan, FHA will establish independent centers to centralize non-core functions previously performed in the field offices,



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consolidate and restructure functions to streamline processes and achieve economies of scale, privatize and outsource certain functions, provide needed training and improve technology.

The second material weakness relates to the need for FHA to focus more attention on reducing the frequency and loss severity of defaults on insured mortgages by improving its efforts to identify and cure troubled multifamily mortgagees before they become seriously delinquent, and by improving risk management for the single family portfolio.

Actions planned by FHA to address this weakness include: establishment of the Real Estate Assessment Center to identify financial and physical problems and refer serious problems to the Enforcement Center; automated submission of audited financial statements to the Assessment Center; establishment of integrated automated systems for tracking, targeting, monitoring and analysis; and consolidation of the loss mitigation and quality assurance functions.

### Government National Mortgage Association (Ginnie Mae)

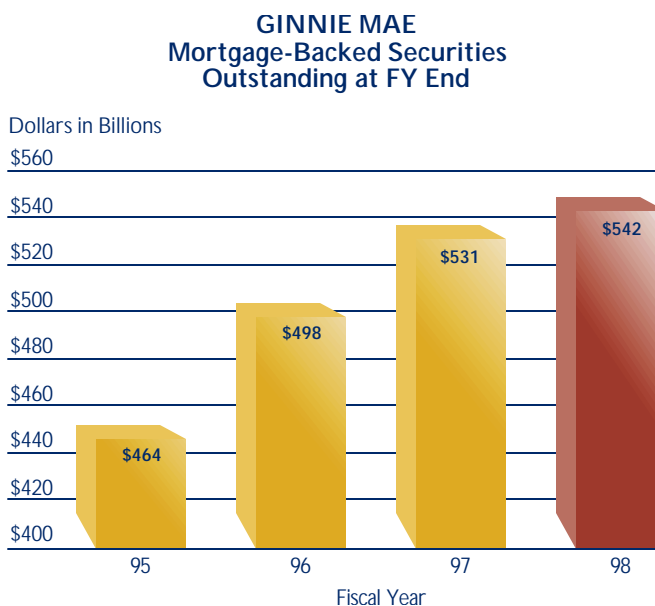
Ginnie Mae, a wholly-owned Government corporation within the Department of Housing and Urban Development, was created by Congress in 1968. Ginnie Mae's mission is to support affordable homeownership for low and moderate income families by providing liquidity to the secondary mortgage market and by attracting capital from capital markets into residential mortgage markets.

Through its well-known mortgage-backed securities (MBS) programs, Ginnie Mae creates a vehicle for channeling funds from the securities markets into the mortgage market and helps to increase the supply of credit available for housing.

Since inception of the MBS Program in 1970, Ginnie Mae has guaranteed the issuance of over \$1.4 trillion in securities providing the capital to purchase or refinance 22.7 million homes.

### Operations

Outstanding Ginnie Mae MBS securities at the end of FY 1998 were \$542.2 billion, an increase of \$11.6 billion from the \$530.6 billion at the end of FY 1997.



Ginnie Mae's Financial Management Team has reported that net income for FY 1998 was a record \$675 million, an increase of \$74 million from the prior fiscal year. Total revenue increased by \$80 million over the prior fiscal year to \$768 million.



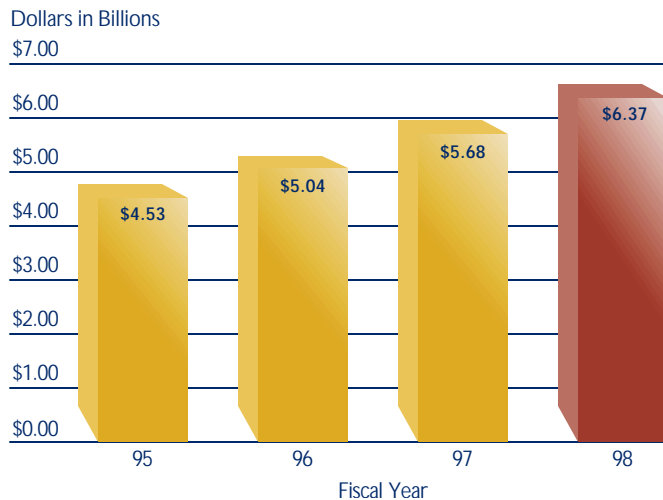
# INCREASE HOMEOWNERSHIP OPPORTUNITIES

Total expenses increased by \$7 million from the prior fiscal year, but only slightly increased as a percentage of gross revenue to 5.9 percent in FY 1998 from 5.6 percent in FY 1997. Provision for loss on the MBS Program was \$47 million for FY 1998 and for FY 1997. Ginnie Mae's total expenses were \$46 million for FY 1998.

## Treasury Securities (Percent of Total Invested)

Maturity Dates	1996	1997	1998
Less than 1 Year	18	9	11
1 - 5 Years	41	47	51
5 - 10 Years	41	44	38

## GINNIE MAE Total Assets at Fiscal Year End



Assets increased by \$684 million over the previous fiscal year to \$6.4 billion, primarily as a result of income from operations and interest earned on investments. An increase in MBS Program income and U.S. Government securities accounted for most of the increase in assets from FY 1997.

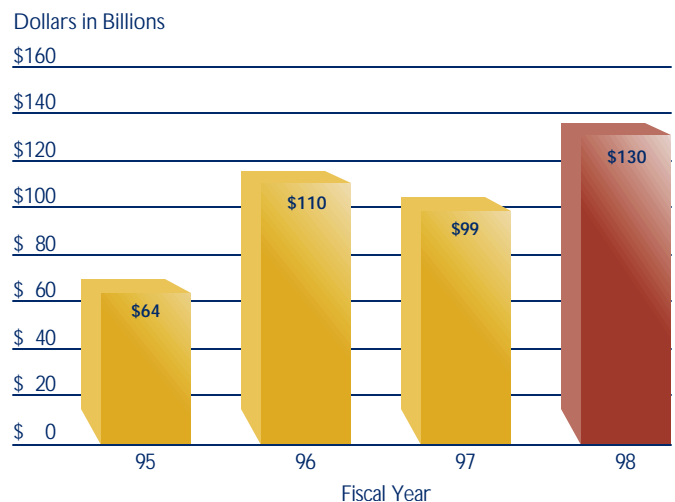
Liabilities increased by \$9 million or 1.6 percent from the prior fiscal year, primarily as a result of the increase in the need to provide resources to support the MBS program and secondarily to support Ginnie Mae's reserves for loss.

Ginnie Mae continued its investment strategy of extending the maturity range of its securities portfolio. Following this strategy contributed to the increase in interest income. The following table shows the percent change of securities held in each maturity range.

## Administration of Program Activities

Through the MBS Program, Ginnie Mae guarantees the timely payment of principal and interest to investors of privately issued "Ginnie Mae" securities. These securities are backed by pools of residential mortgages insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Rural Housing Service (RHS). Ginnie Mae's guaranty is backed by the full faith and credit of the United States. One of Ginnie Mae's performance measures is to maintain a 95 percent rate of securitization for FHA and VA loans. In FY 1998, Ginnie Mae exceeded its performance measure by securitizing 96.7 percent of FHA and VA loans.

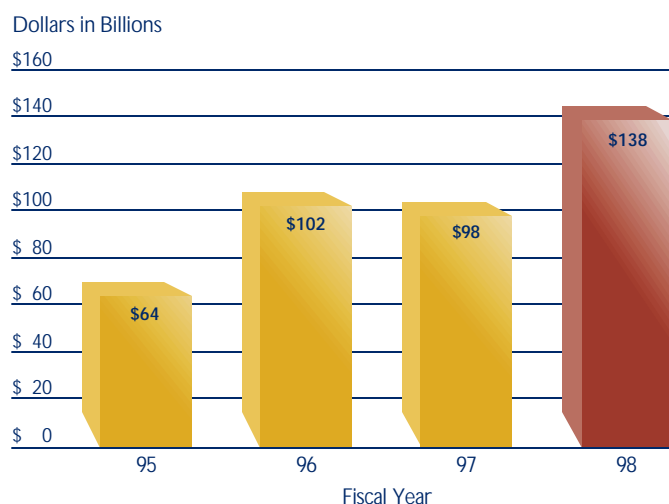
## GINNIE MAE Mortgage-Backed Securities Commitments Issued



## DISCUSSION AND ANALYSIS OF OPERATIONS

Ginnie Mae approved \$130 billion in commitment authority during FY 1998, a more than 31 percent increase from FY 1997. Ginnie Mae guaranteed the issuance of securities for \$138 billion during FY 1998, which provided the capital to finance the purchase or refinance of homes for approximately 1.5 million American families. The \$138 billion of security guarantees issued represents a 41.2 percent increase from FY 1997.

**GINNIE MAE**  
Mortgage-Backed Securities  
Security Guarantees Issued



The increase in commitment and issuance activity resulted from lower interest rates and a stronger housing market. Of the security guarantees issued, over \$134 billion of securities were backed by single-family mortgages; \$4 billion were backed by multifamily construction and project loans; and \$300 million were backed by manufactured housing loans.

**Annual Defaulted Unpaid  
Principal Balance by Portfolio**  
(Numbers in Percent)

Portfolio	1995	1996	1997	1998
Single-Family	1.79	1.96	1.97	1.64
Multifamily	1.85	1.44	0.92	0.78
Manufactured Housing	3.67	5.31	4.64	3.52

*In the Single Family and Manufactured Housing programs, serious delinquencies are loans which are three months or more delinquent plus foreclosures. In Multifamily programs, serious delinquencies are loans delinquent two months or more plus foreclosures.*

Delinquency ratios for the MBS pooled mortgages declined in the multifamily and manufactured housing programs compared to the previous year. The single-family delinquency rate decreased slightly to 1.64 percent in FY 1998 from 1.97 percent in FY 1997, demonstrating an improvement to the delinquency ratios in past fiscal years.

The manufactured housing delinquency rate declined to 3.52 percent in FY 1998 from 4.64 percent in FY 1997. Security issuance in the manufactured housing program continues to decrease.

Delinquency ratios in the multifamily programs declined to 0.78 percent in FY 1998 from 0.92 percent in FY 1997, a 15 percent decline. Ginnie Mae will continue to monitor issuers through the Issuer Portfolio Analysis Database System for unusual fluctuations in portfolio delinquency rates. Ginnie Mae increased its multifamily securitization percentage rate of FHA-insured dollar volume from 54 percent in FY 1996 to 81 percent in FY 1997 and FY 1998.

Ginnie Mae continues to work with FHA, VA and RHS to develop enhancements intended to help expand homeownership opportunities for low-and moderate-income American families. Ginnie Mae continues to fulfill its mandate to promote access to mortgage credit throughout the nation by increasing the liquidity of investment capital available to the residential mortgage finance market. Ginnie Mae's Targeted Lending Initiative has proven to be tremendously effective in helping to increase homeownership levels in targeted central city communities. Its objective was to bring an additional \$1 billion of investment funding annually to 72 designated targeted lending areas. In fiscal year 1998, \$3.9 billion in targeted lending pools were issued. Ginnie Mae will also continue to increase its reliance on technology to enhance the efficiency of its MBS Program.

# INCREASE HOMEOWNERSHIP OPPORTUNITIES

## Asset Management Activities

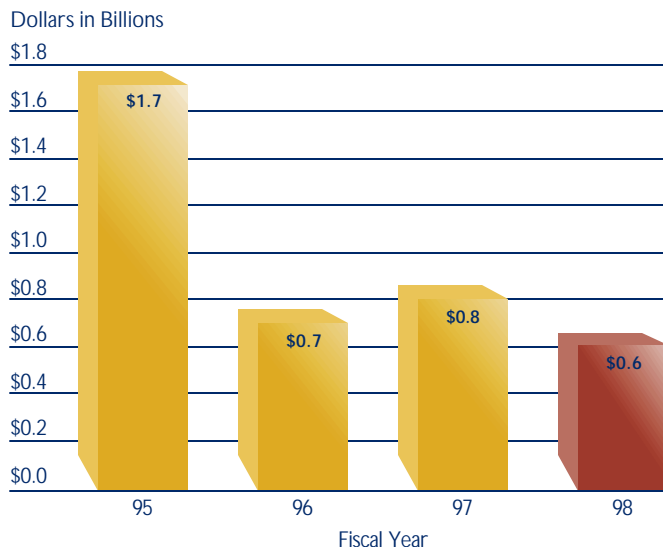
Upon default of an issuer, Ginnie Mae acquires the issuer's outstanding Ginnie Mae servicing portfolio. Ginnie Mae works to ensure that the servicing of loans collateralizing mortgage-backed securities is maintained and the payment of principal and interest to security holders is made in a timely manner.

**Annual Defaulted Unpaid Principal Balance by Portfolio**  
(In Millions of Dollars)

Portfolio	1995	1996	1997	1998
Single-Family	\$202	\$60	\$351	\$8
Multifamily	237	0	0	0
Manufactured Housing	0	0	0	0
Total	\$439	\$60	\$351	\$8

During fiscal year 1998, Ginnie Mae acquired one single-family portfolio with an aggregate principal balance of \$8 million, representing a \$343 million decrease from the \$351 million acquired in FY 1997.

**GINNIE MAE**  
**Acquired Servicing Portfolio**  
**at End of Fiscal Year**



By the end of FY 1998, Ginnie Mae had an acquired servicing portfolio of \$627 million, compared to \$827 million in FY 1997. The \$200 million decrease was due to the reduced number of acquisitions as a result of an improved economy, interest rates, and housing market. Ginnie Mae services defaulted issuers' portfolios until such time as the servicing rights can be packaged and sold through an open and competitive bid process to approved Ginnie Mae issuers. Ginnie Mae works to bring a Ginnie Mae-held portfolio to a positive net present value before conducting a sale.

## Ginnie Mae Multiclass Program

During FY 1998, Ginnie Mae guaranteed \$17.6 billion in Real Estate Mortgage Investment Conduit (REMIC) securities. This was Ginnie Mae's fifth year in the REMIC market, and Ginnie Mae continues to improve its competitiveness in the government backed REMICs market. REMICs have reclaimed their role as an important tool for investors to manage mortgage cash flows. Ginnie Mae expects that the demand for Ginnie Mae REMICs will continue to experience growth due to the improved liquidity of the security.

The Ginnie Mae Platinum Program facilitates the combination of smaller, less liquid pools of MBS into larger Ginnie Mae Platinum securities. In FY 1998, \$19.3 billion in Ginnie Mae Platinum Securities were issued. The Ginnie Mae Platinum Program (the industry standard for large MBS pools) should also continue to be a major product. Ginnie Mae's performance measurement on the multiclass program was to increase revenue on security credit enhancement by 10 percent in FY 1998. Ginnie Mae increased multiclass revenue by 48 percent in FY 1998. Ginnie Mae expects to continue its strong issuance volume for Multiclass Securities and to meet demand for new security products.

## DISCUSSION AND ANALYSIS OF OPERATIONS

# Increase Availability of Affordable Housing in Standard Condition to Families and Individuals, Particularly the Nation's Poor and Disadvantaged

This section covers the following major programs:

### ***Section 8 Lower Income Rental Assistance Program***

#### ***Operating Subsidies, Grants, and Loans to Housing Agencies***

#### ***HOME Investment Partnerships Program***

#### ***Multifamily Housing Programs***

#### ***Lead Hazard Control***

In HUD's 1997 Report to Congress on Worst Case Housing Needs entitled *Rental Housing Assistance-The Crisis Continues*, it states that "the number of very-low-income renters with worst case housing needs remained at an all-time high — 5.3 million."

***"In 1995 (the latest year for which data is available), 5.3 million very-low-income renters without housing assistance paid over half their income for housing or lived in severely substandard housing."***

***"Almost 70 percent of unassisted renters with extremely low incomes had worst case housing needs in 1995."***

***"Not even families working full time at the minimum wage can afford decent housing in the private rental market."***

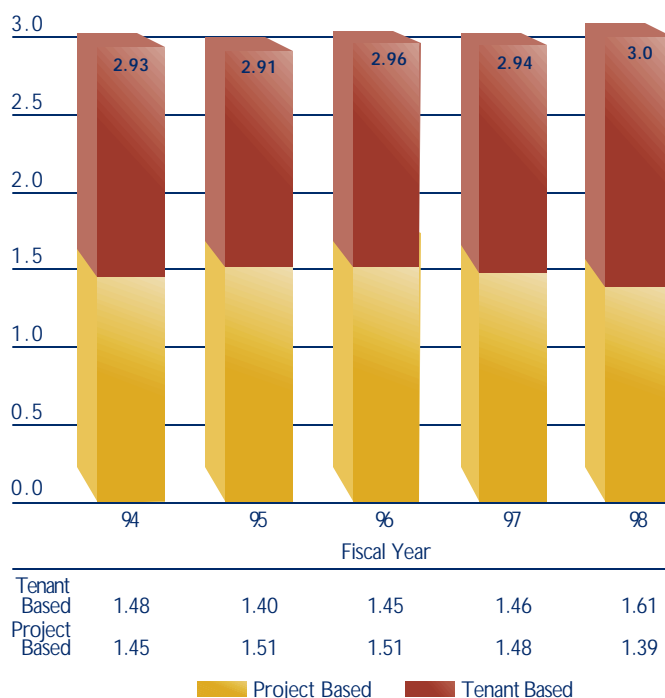
## Section 8 Lower Income Rental Assistance Program

The Section 8 Lower Income Rental Assistance Program assists low and very-low income families in obtaining decent, safe and sanitary housing at rents they can afford. Section 8 programs are classified as either tenant-based or project based.

Section 8 Housing Units  
Eligible for HUD Assistance  
as of September 30th

Numbers in Millions

3.5



**The tenant-based program's** objective is to enable low and very-low income families to afford decent, safe and sanitary housing. Under these programs, HUD enters into contracts with the housing agencies (HAs), which administer the programs. The HAs then provide either rental certificates or rental vouchers to eligible tenants.



Rental certificates and vouchers allow families to rent a housing unit of their choice. For certificates, the amount of assistance is determined by the difference between what the family can afford and the rent for the unit. For vouchers, the amount of assistance given is the difference between what the family can afford and the approved payment standard for the area.

**The project-based program's** objectives are to: 1) encourage the construction and rehabilitation of rental units, by tying the subsidy directly to the unit constructed or rehabilitated; 2) stabilize the cash flow of FHA-insured or HUD-held multifamily projects which are in financial difficulty; 3) preserve the low-income use of certain multifamily projects; and 4) facilitate the sale of multifamily projects by providing Section 8 assistance to related units.

The number of project-based units eligible for assistance has decreased over the past several years due to: expiration of Section 8 contracts; "opt outs," in which project owners opt to cancel their Section 8 contracts and instead, make those units eligible for fair market rents; and replacement of some project-based units with tenant-based units (i.e., units rented by tenants with vouchers or certificates).

Although no new contracts for new construction or substantial rehabilitation activities are being entered into, there are still a number of existing contracts for these projects which require funding for amendments and renewals. Project-based rental assistance is provided directly to multifamily project owners through the following programs:

- **The Preservation Program** provides financial incentives to owners of certain projects in order to preserve units for low-income use. Without these incentives, the low-income use requirement would expire 20 years after the final mortgage endorsement. This program received \$131 million in FY 1998 appropriations.
- **Loan Management Set Asides (LSMAs)** are rent subsidies which were given to owners of FHA-insured properties which were experiencing financial difficulties. Beginning in FY 1997, no new appropriations were approved, and only existing LSMA renewals were funded.

- **Property Disposition** provides Section 8 assistance for those multifamily FHA properties being sold by the Department in the private market. Starting in FY 1997, no new Section 8 assistance was provided for multifamily FHA properties being sold.
- **The New Construction/Substantial Rehabilitation Program** allows project owners to obtain financing to construct or rehabilitate a multifamily rental project; HUD then executes long term contracts (20-40 years) to provide the owners with rent subsidies for the lower-income families. These contracts often serve as part of the security for the loan. Current HUD outlays under this program are for existing contracts only; no new authority has been granted since 1983.
- **The Moderate Rehabilitation Program** is administered by the Housing Agencies. The program provides rental assistance to project owners who rehabilitate their properties and lease them to eligible low-income tenants.

## Section 8 Obligations

Obligations relating to HUD's Section 8 programs totaled approximately \$60.8 billion and \$66.9 billion as of September 30, 1998 and 1997, respectively. HUD enters into multi-year contracts with Housing Agencies and Project Owners to provide rental subsidies over the term of these contracts. These obligations consist of the subsidies to be paid by HUD applicable to the remaining terms of these contracts.

A significant portion of these obligations are funded through permanent indefinite appropriations (\$20.8 billion and \$47.5 billion as of September 30, 1998 and 1997, respectively). These obligations relate to future amounts due under subsidy contracts entered into prior to FY 1988 (primarily relating to the Section 8 and Section 235/236 programs) which operated under contract authority. Contract authority enabled the Department to enter into multiyear contracts, with an annual draw against permanent indefinite appropriations to fund amounts due under these contracts.

## DISCUSSION AND ANALYSIS OF OPERATIONS

### Section 8 Mark-to-Market Reforms

One of the most daunting issues which faced the Department at the end of FY 1996 was the impending expiration of Section 8 rental assistance contracts. The number of expiring contracts and the cost of renewing these contracts will grow sharply over the next few years. To meet this challenge, Congress passed legislation that provides for a new office within HUD – the Office of Multifamily Housing Assistance Restructuring (OMHAR) – to implement the “mark-to-market” program. Its goal is to reduce the costs of over-subsidized Section 8 multifamily housing properties insured by FHA.

Under the “mark-to-market” program, FHA-insured Section 8 housing properties with above market rents are eligible for debt restructuring to reduce rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance. In response to limitations with HUD capacity, the legislation shifts the administration and management of this portfolio from HUD to entities, termed Participating Administrative Entities (PAEs), charged with protecting the affordable housing stock in a fiscally responsible manner. Additionally, the legislation terminates the government’s relationship with owners who fail to comply with Federal requirements and ends the practice of subsidizing properties that are not economically viable.

While the act prescribes, in general terms, the selection of PAEs and the development and submission of mortgage restructuring plans for insured and HUD-held mortgages, OMHAR is charged with developing regulations, rules and procedures to implement the program.

FY 1999 marks the transition from three years of demonstration programs to the “permanent” OMHAR program. OMHAR sunsets October 1, 2001, and, by that time, staff estimates that between 2,000 and 3,000 owners will choose to participate in restructurings that will require full or partial claim payments from FHA funds. The broad estimate is a function of the many difficult-to-determine variables, including but not limited to current and prospective market rent; rehabilitation needs of the project; and the tax situation of individual owners. The financial impact of these

proposals will vary from project to project depending on such factors as the financial and physical condition, the size and timing of subsidy changes, and local market conditions.

On a portfolio basis, HUD expects a total net cost savings to the government based on a comparison of the present value of the Section 8 savings to FHA claim payments if the debt were not restructured. The claims which would result almost all relate to insurance issued prior to 1991. FHA has available permanent indefinite appropriation authority to pay these claims. FHA has provided reserves to reflect the estimated impact on insurance claims as discussed in the footnotes to the financial statements.

### Determination of Excess Rental Subsidies

Because the amount of rental subsidies paid on behalf of a tenant is based on that tenant’s income, the failure of a tenant to report all income to the program administrator and of the program administrator to properly certify tenants results in the Department paying excess rental subsidies. This issue applies to the Department’s Section 8 and Low Rent public housing programs.

During the last three fiscal years (FY 1996-98), the Department selected from its household databases, a statistical sample of Section 8 and Low Rent public housing households, and computer matched their income against income information maintained by the Internal Revenue Service and the Social Security Administration. The results of the most recent sample, extrapolated to the entire population of subsidized households, indicated that excess subsidies paid during calendar year 1997 (the most recent year in which information was available for computer matching purposes) totaled \$857 million  $\pm$  \$211 million. The database from which this statistical sample was drawn comprised approximately 90 percent of all households receiving housing assistance during calendar year 1997. Since the database does not include all households receiving subsidy, extrapolating these sample results to the entire population of households cannot be done with statistical validity. Additional information on this issue can be found in Note 15 to the financial statements.

The phrase “excess rental subsidies” does not necessarily equate to budgetary reductions that could be achieved by eliminating the excess rental assistance. HUD’s budgetary needs are affected by many variables not recognized in the above estimates.

## Section 8 Material Weakness

The Department had a material weakness at the end of FY 1998 which related to the payment of excess rental subsidies (including subsidies relating to the Section 8 program).

The Department’s rental subsidies are based on the amount of income reported by tenants. To the extent that tenants underreport their income, the Department pays excess subsidies. During FY 1998, the Department set up a task force headed by the Chief Financial Officer to address this issue. The final recommendation was to computer match income reported for all tenants with IRS/SSA records.

Given significant legislative and data constraints, HUD must take several actions to create a viable large-scale computer matching program. These actions involve: (1) Minimizing the number of false positive computer matching results, i.e., indicators of unreported income that when analyzed do not identify actual abuses; and (2) changing program policies.

One major step to reduce false positives involves converting income data provided by tenants (which in most situations covers a 12 month period other than a calendar year) to calendar year data. One major change in program policies is the proposed rule which HUD has drafted that cites enforcement actions that program administrators must take concerning underreporting of income by tenants. The proposed rule also references compliance actions HUD may take if program administrators fail to take enforcement action. The Department anticipates implementing large-scale matching during FY 2000.

## Operating Subsidies, Grants, and Loans to Housing Agencies

There are approximately 4,500 housing authorities (HAs) across the Nation which manage HUD rental assistance programs (e.g., Section 8 and Public and Indian Housing programs). These HAs are primarily composed of public housing agencies (PHAs) and Tribally Designated Housing Entities (TDHEs). Of these, 3,266 PHAs manage approximately 1.3 million public housing units that are homes for some 2.8 million persons. In addition, there are some TDHEs which also administer public housing programs. [Under the Native American Housing Assistance and Self Determination Act, TDHEs are not required to report to HUD.] There are an estimated 200-plus TDHEs managing an estimated 70,000 to 80,000 public housing units. HUD provides funding to these HAs through the following programs:

- **Operating Subsidies** are financial subsidies provided directly to HAs, based on a formula calculating the allowable expense level (AEL) for each HA. HUD provides a subsidy to make up the difference between the AEL plus utility costs and the HA’s rental and other income.
- **Low Rent Public Housing Grants** assist HAs with the upkeep of housing units and increase the housing stock; HUD also provides grants for modernization/rehabilitation of existing housing units and for development activities to demolish obsolete housing and/or to acquire or construct additional housing units.
- **Low Rent Public Housing Loans** were used, prior to FY 1986, by HAs to obtain loans from the private sector and from the Federal Financing Bank to finance the development and rehabilitation of low rent housing projects. HUD has assumed repayment of these loans and, accordingly, pays the annual debt service costs.

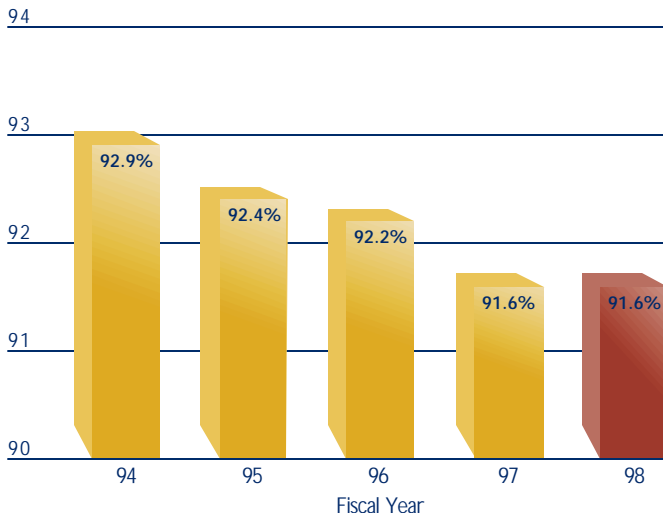
## DISCUSSION AND ANALYSIS OF OPERATIONS

### Public Housing Units Occupied

The percentage of available public housing units occupied represents the extent of available housing units being lived in. The ideal rate would be 100% but is not attainable due to the time periods when units are unoccupied between move-outs and move-ins of tenants and other factors. A high occupancy rate means that more units are being used for housing and are not sitting vacant.

Keeping the occupancy rate high is also important because rent collected from tenants in occupied units is part of the total PHA income used to maintain all available units. As the amount of rental income increases, the amount of HUD subsidy needed decreases accordingly. The number of units occupied during FY 1998 remained constant at 91.6 percent, the same as FY 1997. The slight decrease from FY 1994 through FY 1998 is not considered statistically meaningful.

Percentage of Available Public Housing Units Occupied



### Housing Authority Performance

The Public Housing Management Assessment Program (PHMAP) continues to serve as the Department's vehicle for measuring the performance of PHAs in major areas of public housing operations. PHAs are scored on a number of standard criteria, with a total score placing them in one of the following categories:

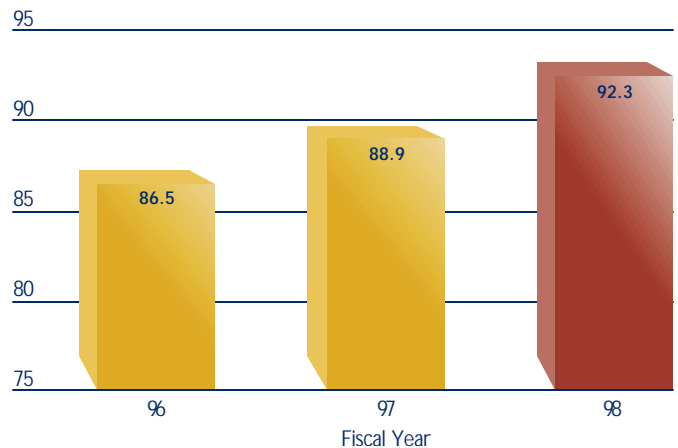
**High Performer:** A score of at least 90 points.

**Standard Performer:** A score of at least 60 but less than 90 points.

**Troubled Performer:** A score of less than 60 points.

HUD's renewed emphasis on improving HAs' management practices has resulted in HAs improving their PHMAP scores. The average PHMAP score for FY 1998 was 92.3 points, which exceeded the FY 1998 goal of 87.5 points. HUD's goal by FY 2000 is an average PHMAP score of 88.5 points.

Average Public Housing Management Assessment Program (PHMAP) Scores





# INCREASE AFFORDABLE HOUSING

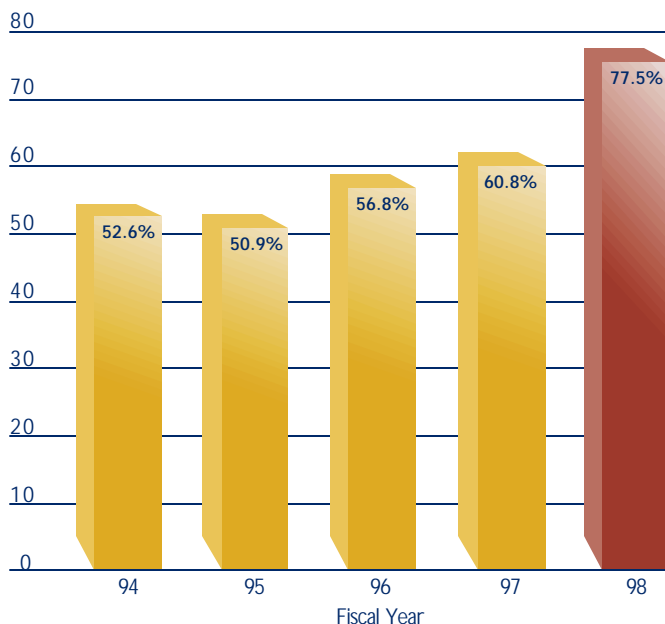
The accuracy of the data used to determine the PHMAP score is dependent on timely data submission by housing authorities and data entry by field office staff. It is likely that, when the information was extracted from the databases and reports, some of the data had not yet been received or entered into the system, which would introduce some inaccuracy in the reported results.

## High Performers

High Performers are PHAs with an assessed performance score of 90 points or higher. Increasing the number of high performers is important to assure that funds are being used effectively and efficiently, housing units are maintained in a decent, safe and sanitary manner, and the number of housing units available for occupancy is maximized.

High performers generally have a higher percentage of units occupied, the units are in better condition, there is a higher level of resident satisfaction, and the HAs are generally in better financial condition (e.g., the amount of operating funds in a reserve account is at the appropriate level). High performers also provide a service in being a resource to other HAs for technical assistance and to HUD for insight into improved management procedures and commenting on proposed legislation and regulations.

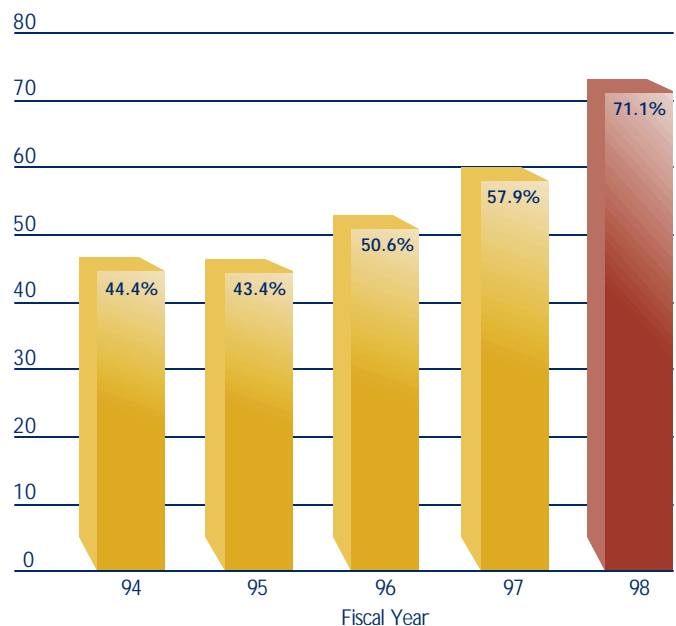
Percentage of PHAs That Are High Performers



Due to the continued increase in the percentage of high performing PHAs, the Department continues to see a corresponding decrease in the percentage of standard performers and a continued decline in the percentage of troubled performers.

There are many factors that influence the number of high performers and the housing units managed by them, including the collective efforts of HUD and HA staff, technical assistance providers, and long-term management improvements. The number of housing units managed by an individual PHA varies from a few units to tens of thousands. It remains desirable to have a high percentage of housing units managed by high performers, since the high performers can do a better job of managing housing units. The percentage of housing units managed by high performers in FY 1998 was 71.1 percent, an increase over FY 1997's 57.9 percent.

Percentage of Housing Units Managed by High Performers



Since a relatively small number of HAs manage a large number of housing units, there is no direct relationship between the percentage of HAs classified as high performers and the percentage of housing units they manage.

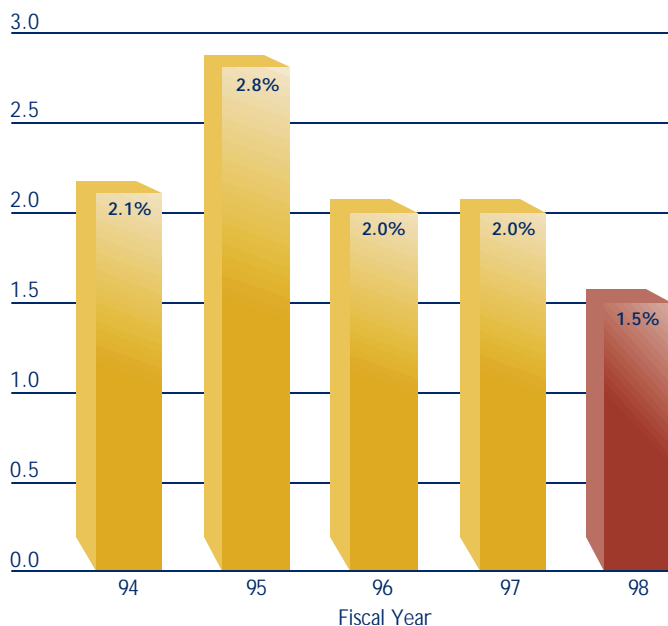


## DISCUSSION AND ANALYSIS OF OPERATIONS

### Troubled Performers

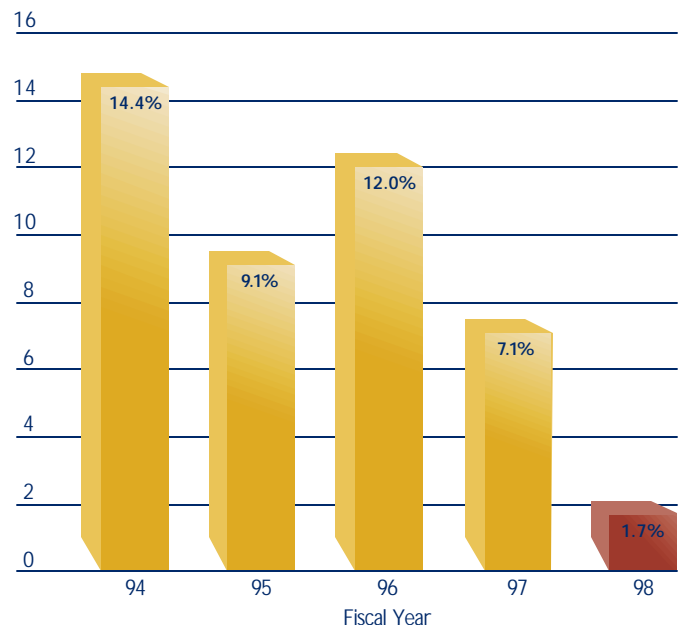
Troubled performers are those with a performance score of less than 60 points. It remains important to reduce the number of troubled PHAs to minimize the number of poorly managed housing units, thus increasing the number of housing units that are well managed. This indicator continues to provide the basis for determining the type and extent of HUD technical assistance needed by the PHAs and where such resources should be focused. The percentage of PHAs that are troubled performers was 1.5 percent in FY 1998, down from 2.0 percent in FY 1997. It also continued a four year decrease in the percentage of troubled performing PHAs.

Percentage of PHAs  
That are Troubled Performers



The percentage of housing units managed by troubled performers also declined to 1.7 percent in FY 1998 from 7.1 percent in FY 1997. This also continued a four year decrease in this measure. This change shows the results of HUD's increased efforts in working with troubled HAs to address their management and operating difficulties. This indicator contributes to the determination of where HUD technical assistance resources are most needed.

Percentage of Housing Units  
Managed by Troubled Performers



### Reducing the Number of Distressed Public Housing Units

The reduction of the number of obsolete or distressed housing units remains the focus of HUD's renewed efforts to revitalize neighborhoods and remove the blight associated with the boarded up housing units. The demolished units are being replaced with lower density housing, and housing certificates and vouchers are being provided to allow tenants to obtain private sector housing.

For FY 1998, a goal of 15,000 public housing units approved for demolition was established. The actual number of approvals was 15,645. The cumulative total of approvals through FY 1998 is 77,812 units (which, in addition to FY 1998, consists of 20,534 in FY 1997 and 41,633 in FY 1996). HUD remains on track to achieve its goal of approving 100,000 units for demolition by FY 2000.

For actual demolition of public housing units, the goal is to demolish 100,000 units by FY 2003. Through FY 1998, a cumulative total of 30,419 units have actually been demolished, of which 6,936 units were demolished in FY 1998. It continues to

take longer for PHAs to actually demolish units after they get approval from HUD, because they must then: (a) relocate tenants; (b) do hazardous waste abatement; and (c) finally demolish the units. Because there are a significant number of units in the approved demolition pipeline, HUD continues to expect that the number of demolition's will dramatically increase during FY 1999.

## Public Housing Replacement Units

Currently, Housing Authorities are legally required to replace any units demolished or disposed of on a one-for-one basis and to provide housing for at least the same number of residents. However, these requirements have been suspended by Congress in HUD's most recent funding legislation.

Notwithstanding the legislative suspension, the Department remains committed to the replacement of units as part of the revitalization process within communities. For FY 1998, a goal of 13,500 replacement units approved was established. The actual number approved was 15,484. The cumulative total of approvals through FY 1998 is over 84,000 units, which indicates that HUD remains on track to achieve its goal of approving 99,170 replacement units by FY 2000.

## HOME Investment Partnerships Program

The HOME Investment Partnerships Program provides funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Eligible activities include the acquisition of existing housing; reconstruction and rehabilitation of substandard housing; construction of new

housing, assistance to new home buyers, demolition and site improvements; and tenant-based rental assistance. All families assisted by HOME must be low-income, defined as those with an income at or below 80 percent of the area median. Deeper targeting is required for rental housing.

Outlays for this program have increased each of the last three fiscal years. These increases reflect the higher funding levels since FY 1995 and increased capacity of the participating jurisdictions (PJs) to utilize funds. Outlays were an estimated \$1.29 billion in FY 1998, \$1.165 billion in FY 1997, and \$1.039 billion in FY 1996. For each of the last three years, every dollar of HOME committed funds leveraged an estimated \$2.00 in other resources.

## HOME Program Commitment Rates

HOME program commitments by participating jurisdictions for housing units have increased rapidly. The increase corresponds to the higher levels of funding beginning in FY 1995 and increased capacity of the PJs and their nonprofit and for-profit partners to utilize the funds. Experience over the last four fiscal years has shown that:

- At the end of FY 1998, an estimated \$5.9 billion had been committed for an estimated 346,729 units and rental assistance for 44,304 families.
- At the end of FY 1997, an estimated \$4.8 billion had been committed for an estimated 279,652 units and rental assistance for 36,058 families.
- At the end of FY 1996, \$3.6 billion had been committed for 215,155 units and rental assistance for 28,266 families.
- At the end of FY 1995, \$2.6 billion had been committed for 153,212 units and rental assistance for 19,148 families.

## DISCUSSION AND ANALYSIS OF OPERATIONS

HOME Program  
Commitment Rates in Percent

	FY95	FY96	FY97	FY98
FY 1995 Funds	4.0	63.9	93.0	98.2
FY 1996 Funds	n/a	12.4	66.7	95.1
FY 1997 Funds	n/a	n/a	16.8	49.2
FY 1998 Funds	n/a	n/a	n/a	14.6

The second year commitment rate for FY 1997 funds was 49.2%, compared to the second year commitment rate for FY 1996 funds of 66.7%. This decrease in the FY 1997 second year commitment rate is somewhat offset by a higher first year commitment rate. The Department will continue to monitor commitment rates closely to ensure continued improvement of this performance measure.

### Homeownership and Rental Assistance

The HOME program provides assistance for both homeowners and renters. In FY 1998, the HOME program assisted an estimated total of 75,323 households compared to 72,289 in FY 1997; 71,210 in FY 1996; and 67,178 in FY 1995. The increase over the last four years of approximately 4 percent annually is due primarily to an increase in annual appropriations, and to an increased capacity of participating jurisdictions and subrecipients to utilize these appropriations.

Homeownership assistance for both new and existing homeowners in FY 1998 was provided to an estimated 42,929 households, compared to an estimated 30,239 in FY 1995. This increase of 42 percent over the past three years is due to a trend toward PJs' increasing assistance to homeowners.

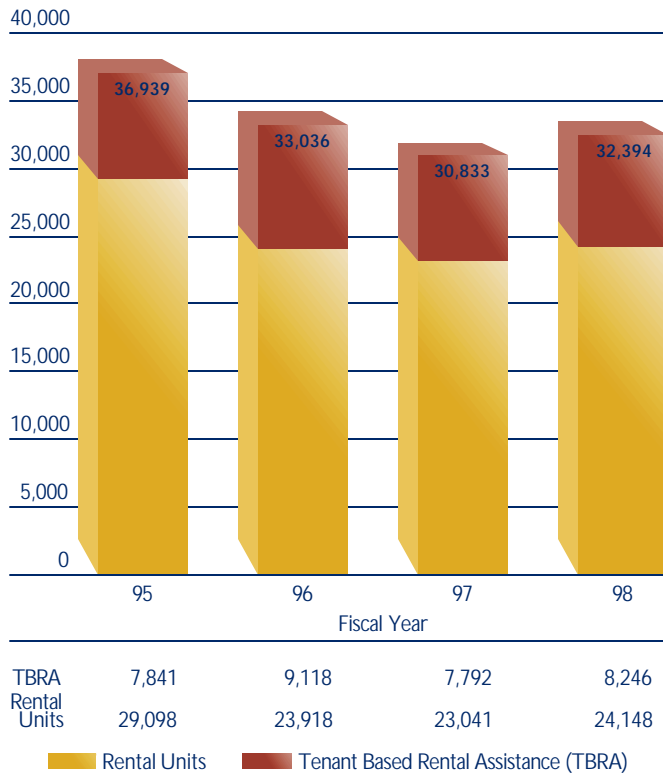
HOME Program  
Assistance Provided to Homeowners



The HOME program also provides assistance to renters through development of rental units and tenant based rental assistance (TBRA). Since FY 1992, the HOME program has consistently provided 98 percent of HOME rental assistance to renters with incomes below 60 percent of the median income. In FY 1998, the program assisted an estimated 32,394 rental households, compared to 30,833 in FY 1997, an increase of about 5 percent.

# INCREASE AFFORDABLE HOUSING

**HOME Program  
Assistance Provided to Renters**



## Multifamily Housing Programs

A fundamental role of the Department is to ensure that Americans of all income levels have access to decent quality housing at a cost that does not drive out spending for food, clothing, and other necessities. In FY 1998, FHA continued to provide financing support for rental housing and health care facilities by insuring multifamily loans and risk-sharing mortgages. FHA provides mortgage insurance to approximately 100,000 units per year under a variety of rental apartment and health-care programs.

In FY 1998, FHA initially endorsed 702 loans totaling \$4.2 billion, approximately the same level of activity as in FY 1997. FHA's basic business, which includes loans for new construction, substantial rehabilitation, and refinancing of apart-

ments and health care facilities, remained strong due to the good economy, low interest rates, improved speed of processing, and the increased need for rental housing and nursing homes. Continued strong performance in the portfolio has resulted in lower credit subsidy rates for most multifamily programs.

The number of Section 221(d)(4) new construction and substantial rehabilitation mortgages increased by more than 30 percent from 155 in FY 1997 to 209 in FY 1998. The number of refinancings of rental housing mortgages declined from 270 in FY 1997 to 235 in FY 1998 due to the growth of other financing options. A similar decline in the number of refinancings occurred for nursing home mortgages, which fell from 84 in FY 1997 to 65 in FY 1998. In addition, two hospitals refinanced their mortgages.

Affordable rental housing was also increased through risk-sharing partnerships between FHA and participating state and local housing finance agencies. FHA has been successful in attracting quality partners, defining clear roles and responsibilities, sharing expertise and obtaining good results. FHA endorsed 69 risk-sharing mortgages in FY 1998 compared to 60 in FY 1997. In most risk-sharing cases, loans are not insured until projects are completed and rented. Insurance-in-force can be expected to increase in the future as more projects in the pipeline near completion.

The Office of Housing continued to expand the supply of rental housing with supportive services for low-income elderly persons and persons with disabilities by providing capital advances and rental assistance under the Section 202 and 811 programs. Initial closings of 337 projects were completed in FY 1998. These results exceed Fiscal Year performance objectives. There were 20 fewer initial closings than in FY 1997, primarily because the pipeline is being cleared and fewer 202/811 projects are being funded.

## DISCUSSION AND ANALYSIS OF OPERATIONS

During FY 1998 FHA continued to improve its relationships with its customers. During the year FHA updated the Residential Rights brochure. FHA is discussed in its entirety under the Strategic Objective *"Increase Homeownership Opportunities."*

### Multifamily Housing Material Weakness

The Department had a material weakness at the end of FY 1998 which relates to the need to improve the monitoring of multifamily housing projects. Currently, the monitoring of these projects is inadequate to ensure that rental subsidies are provided only on behalf of tenants which meet HUD's eligibility requirements and to projects which provide decent, safe and sanitary housing.

The Department has taken several actions to address this deficiency. Routine monitoring has been assigned to the project managers in each multifamily hub/program center, and senior project manager positions have been established in each of the 18 Multifamily hubs to focus on those projects requiring special servicing. A Quality Assurance Unit has been established to report on the adequacy of the monitoring and servicing actions of the field office staff. The Department has also established a Real Estate Assessment Center to serve as the independent arbiter of determining which properties will be referred directly to the newly established Enforcement Center for enforcement and sanctioning activities.

### Lead Hazard Control

One of the Department's goals is to reduce or eliminate residential lead-based paint hazards. To measure progress in meeting this goal, several measures have been established. These measures are as follows:

- the percentage reduction in median blood lead levels in lead-poisoned children who have lived in abated housing units for at least one year. The target percentage reduction for FY 1998 through 2000 is 45 percent. The actual decline for FY 1998 was 77 percent.
- the number of units receiving Federal lead hazard control grants that are declared "lead-safe." The actual number of units in FY 1998 was 5,527. The target for FY 1999 is 6,000 and the target for FY 2000 is 7,000.
- the number of children protected by the lead hazard program in neighborhoods where grants have actually been awarded. The actual number of children protected in FY 1998 was 9,396. The projection for FY 1999 is 10,200 children and 11,900 children in FY 2000.
- the percentage decline in median floor dust levels in units that are made "lead safe" one year after work is completed. The projected reduction in fiscal years 1998 through 2000 is 25 percent. The actual decline in fiscal year 1998 was 65 percent.



# Empower Communities To Meet Local Needs

This section covers the following major programs:

## ***Consolidated Planning Process***

### ***Community Development Block Grants:***

- ***Entitlement Program***
- ***Nonentitlement Program***

### ***Section 108 Loan Guarantees***

Our mission of creating communities of opportunity requires more than just administering our programs on a day-to-day basis. HUD must take a proactive, leadership role in partnering with America's communities. As we move towards the future of America, we will help communities solve their own problems by:

- Planning and executing housing and community development initiatives that are community-driven;
- Coordinating comprehensive, sustainable solutions to urban problems;
- Streamlining housing and community development programs to make them more efficient and effective;
- Increasing access by and communication between citizens and government at all levels.

## Consolidated Planning Process

The key to this objective is the Consolidated Planning Process. The Consolidated Plan/Community Connections system, initiated in 1994, was developed to offer a more comprehensive and rational approach to housing and community development planning. It was an attempt to break down the barriers between four block grant programs totaling over \$6 billion annually by allowing communities more flexibility in utilizing different programs in an integrated way to solve local problems. HUD folded 12 different planning, application, and reporting requirements of these

four programs into one planning and reporting system, enabling the communities to address their problems more comprehensively.

This approach has been a success. Every large city, urban county, and State in the United States undertook a three to five year strategic plan as part of their Consolidated Plan in 1995 or 1996. Annually, every State and local jurisdiction submits an action plan showing how they are going to spend current fiscal year funds received by formula to carry out the priority needs, goals, and specific objectives laid out in the strategic plan. Some 1,000 Consolidated Plan summaries were placed on the Web for all to see.

## Community Development Block Grants

There are many efforts underway to empower communities to meet local needs. The primary one is the Community Development Block Grant (CDBG) program, which was authorized by the Housing and Community Development Act of 1974. This program supports a wide variety of community development activities in cities, counties and States. There are three major components of the CDBG program:

- Entitlements
- Nonentitlements
- Section 108 Loan Guarantees

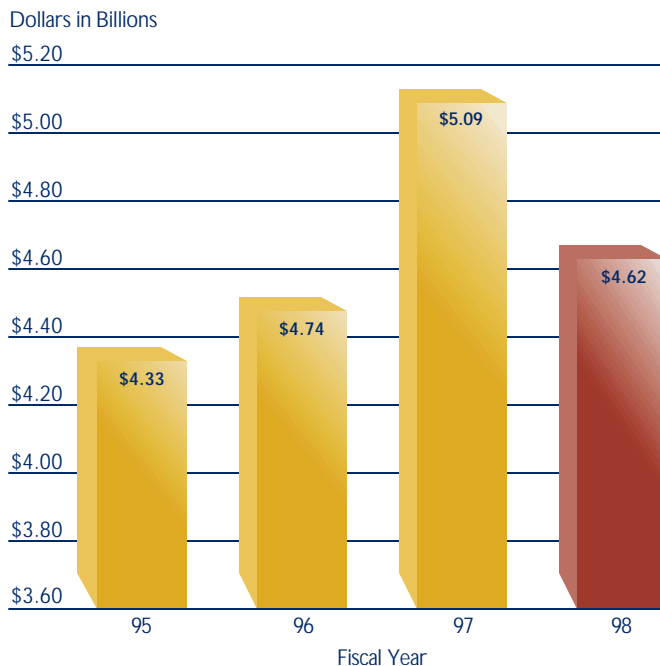
## Entitlement and Nonentitlement Programs

The first two components are the entitlement and nonentitlement programs, which are allocated by formula. The entitlement program provides Federal grants directly to large cities and urban counties. The nonentitlement program funds small communities through their States (State-administered CDBG program) or through competition conducted by HUD (HUD-administered CDBG program.)

## DISCUSSION AND ANALYSIS OF OPERATIONS

Under current law, 70 percent of the CDBG funds are reserved for entitlement community programs, while the remaining 30 percent are for the small community programs. In FY 1998 the estimated amount expended by recipients of CDBG funds was \$4.62 billion, compared to \$5.09 billion expended in FY 1997.

Estimated Amount Expended  
by Recipients of CDBG Funds



One of the main ways of measuring performance in these programs is to determine the number of households assisted. It is estimated that the total number of households assisted by housing activities for both the entitlement and nonentitlement components was 196,700 in FY 1998, 202,100 in FY 1997, and 204,900 in FY 1996.

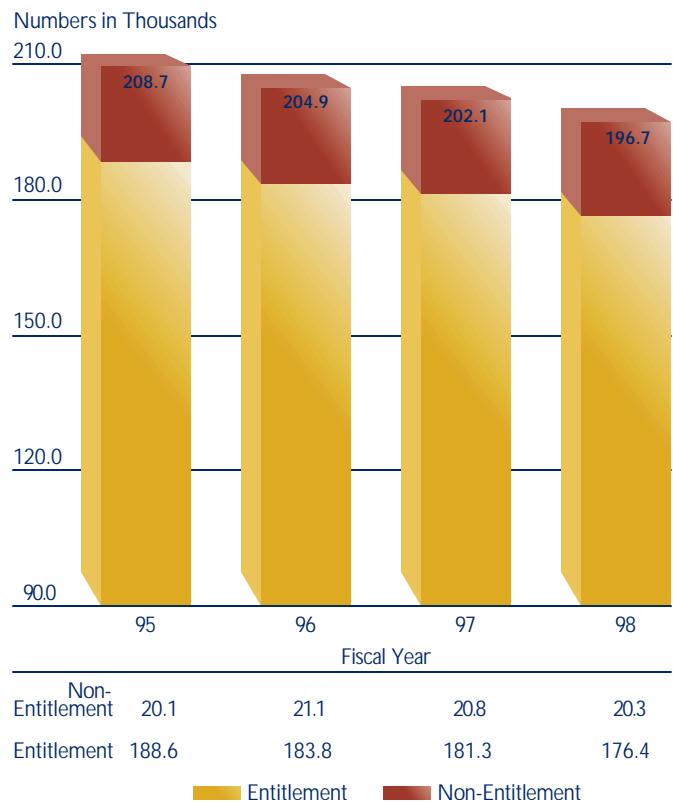
Of these totals, the entitlement community program served 176,400 households with housing assistance in FY 1998, 181,300<sup>1</sup> in FY 1997 and 183,800<sup>1</sup> in FY 1996. The nonentitlement program assisted 20,300 households in FY 1998, compared to 20,800<sup>1</sup> in FY 1997, and 21,100<sup>1</sup> in FY 1996. The number of households assisted is an estimate based on a formula which includes the total amount of annual funding. Since total annual funding has decreased over the last three years,

<sup>1</sup> These numbers differ from those shown in the FY 1997 Accountability Report due to the availability of more current information.

the estimated number of households assisted has also decreased.

Total funding for entitlements was \$2.94 billion in FY 1998, \$3.02 billion in FY 1997, and \$3.06 billion in FY 1996. Total funding for nonentitlements was \$1.26 billion in FY 1998, \$1.29 billion in FY 1997, and \$1.31 billion in FY 1996.

CDBG  
Number of Households Assisted



### Section 108 Loan Guarantees

The third major component of the CDBG program is a loan guarantee provision (Section 108 Loan Guarantees). This component provides a source of lender financing to CDBG grantees for economic development, housing rehabilitation, public facilities, and large scale physical development projects. In FY 1998, loan commitments were \$382 million, compared to \$278 million in FY 1997, \$434 million in FY 1996, and \$1.84 billion in FY 1995. These amounts vary by year, depending on the amount of funding provided for the Economic Development Initiatives (EDI) and Empowerment Zones (EZ).

# Help Communities and States Establish a Full Continuum of Housing and Services Designed to Assist Homeless Individuals and Families in Achieving Permanent Housing and Self-Sufficiency

This section covers the following major programs:

### ***Continuum of Care***

### ***Housing Opportunities for Persons with AIDS (HOPWA)***

The best approach to alleviating homelessness is a community-based process that responds comprehensively to the varying needs of homeless individuals and families. A comprehensive and coordinated housing and service delivery approach helps communities plan for and execute that balanced response.

## Continuum of Care

HUD works with communities to help establish cost-effective “Continuum of Care” (COC) systems in which gaps in the housing and services needed to move homeless families and individuals into permanent housing are identified and filled. The COC is an inclusive process that coordinates the energy and experience of non-profit organizations, State and local governmental agencies, housing developers and service providers, private foundations, local businesses and the banking community, neighborhood groups, and homeless and formerly homeless persons.

Each year communities submit applications to HUD requesting COC funding. Included in the application is a description of the community’s COC approach for alleviating homelessness.

One way of measuring success in the COC program is to determine the percentage of the U.S. population represented by communities which have developed COC systems. In FY 1998 the percentage of the U.S. population represented by communities which had developed COC systems was estimated to be 85 percent, compared to 80 percent for FY 1997 and FY 1996. The increase in FY 1998 was due to a slight increase in funding, thereby allowing more communities to be funded.

A COC system includes the following components: outreach and assessment; emergency shelter; transitional housing with appropriate supportive services; and permanent housing (with or without supportive services).

Transitional housing with supportive services offers homeless people the time, place, and services to overcome many of the circumstances that led to homelessness in the first place. A mark of success in the transitional housing component is the national number of HUD-funded transitional housing beds (which allow people to be housed for up to 24 months and receive supportive services which help them become self-sufficient). The number of transitional housing beds linked to supportive services is estimated to be 128,900 in FY 1998, compared to 120,036 in FY 1997, and 111,149 in FY 1996. The increase from year to year is affected by two facts: the inventory has been building for over ten years and the amount of funding is limited. This requires that a large part of the funding for competitive awards goes for renewal grants to maintain this inventory as opposed to grants for new beds.

## DISCUSSION AND ANALYSIS OF OPERATIONS

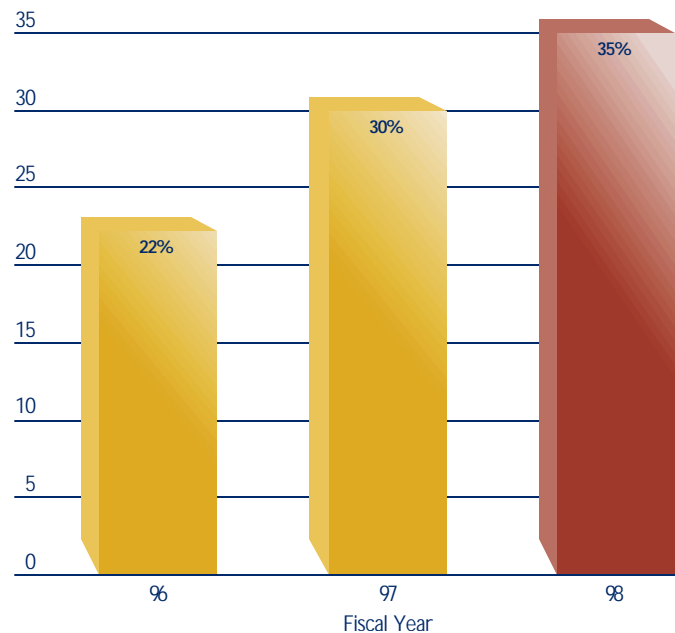
Permanent housing is another major component of the COC. It provides for permanent housing with needed supportive services, primarily for people who are both homeless and disabled. It provides a valuable alternative to the revolving door of relatives, friends, institutions, and the streets. Performance is measured by the national number of HUD-funded permanent housing beds (for which there are no time limits on duration of stay) funded through the Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy programs.

It is estimated that the national number of permanent housing beds furnished in FY 1998 was 71,500, compared to 65,421 in FY 1997 and 59,342 in FY 1996.

The increase from year to year is affected by three facts: the HUD-supported inventory of permanent housing has been accumulating over a period of ten years; funding for renewal grants comprises a large share of total funding; and there has been a noticeable demand by communities for permanent housing assistance.

Each year, a number of people leave transitional housing and move to some form of permanent housing, whether HUD-assisted or not. The percentage of people leaving transitional for permanent housing provides an indication of how successful HUD has been in helping homeless individuals move to more permanent housing. In FY 1998, the percentage of persons leaving transitional housing for permanent housing was estimated to be 35 percent, compared to 30 percent in FY 1997 and 22 percent in FY 1996.

Percentage of Persons Leaving Transitional Housing for Permanent Housing



Another critical element in a community's efforts to successfully implement a COC is their ability to provide supplemental resources (i.e., proposed Federal, State, local, and private contributions) to the Federal funds awarded through the COC application process. HUD strives to ensure that at least \$1 is leveraged for every \$1 of homeless funds awarded. This element, presented in the form of a ratio, identifies the level of resources committed by communities compared to HUD funds awarded. The ratios for FYs 1996 to 1998 were in excess of 1 to 1.

## Housing Opportunities for Persons with AIDS (HOPWA)

The HOPWA program is designed to meet the housing and supportive service needs of low-income individuals with AIDS or HIV and the needs of their families. This program is authorized by the AIDS Housing Opportunity Act as amended by the 1992 Housing and Community Development Act. Funds are distributed to States and localities that have devised long-term strategies for meeting the housing and supportive needs of eligible persons in connection with area Consolidated Planning efforts. The program provides both formula and competitively awarded grants to States, local governments, and nonprofit organizations. These organizations carry out a range of eligible activities, including housing development, operation of facilities, rental and technical assistance, supportive services, and administrative costs.

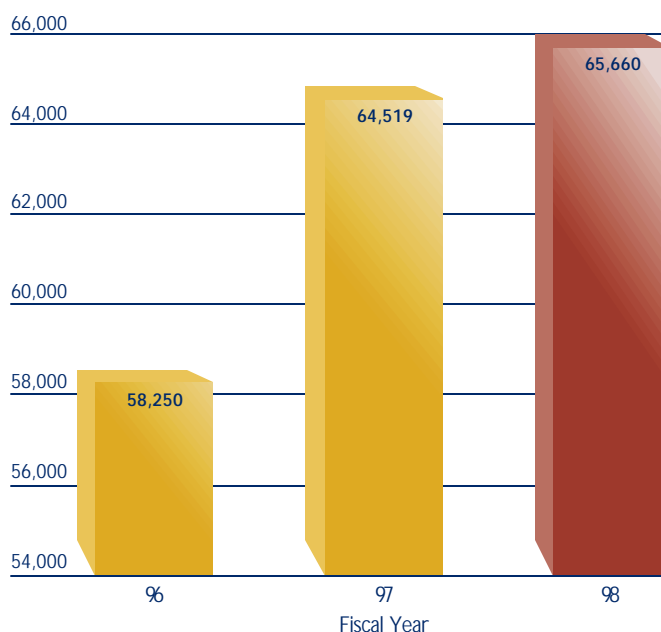
The budget authority for HOPWA was \$204 million in FY 1998, \$196 million in FY 1997, and \$171 million in FY 1996. Ninety percent of the annual HOPWA appropriation is distributed by formula allocations to States and cities in metropolitan areas that have the largest number of AIDS cases. In FY 1998, a total of \$183.6 million in formula funds was provided to 88 communities, including 59 cities and 29 States. In FY 1997, a total of \$176.4 million in formula funds was provided to 80 communities, including 53 cities and 27 States. In FY 1996, a formula allocation of \$153.9 million went to 76 communities, including 49 cities and 27 States. The remaining 10 percent of HOPWA's appropriation is distributed through a competitive process. In FY 1998 funding for competitive grants was \$20.4 million, compared to \$19.6 million in FY 1997 and \$17.1 million in FY 1996.

One measure of performance in the HOPWA program is the number of housing assistance and supportive services available to low-income persons living with HIV/AIDS and their families to

enable them to achieve housing stability and access to health-care and related supportive services. In FY 1998, it is estimated that 37,300 units of housing were made available through on-going rental assistance payments, in support for the development and operation of housing facilities, such as community residences, and in the use of emergency and short-term payments that prevent homelessness for clients and family members who reside with the persons living with HIV/AIDS. In FY 1997 and 1996, the number of housing units made available was 35,845 and 32,200, respectively.

Another measure of performance in the HOPWA program is the number of persons receiving assistance. In FY 1998, HUD estimates that recipients used funds that benefited 65,660 low-income persons living with HIV/AIDS, compared to an estimated 64,519 persons benefited in FY 1997 and an estimated 58,250 in FY 1996. The number of persons receiving assistance includes family members living with persons having AIDS.

Estimated Number of Persons Receiving HOPWA Assistance





## DISCUSSION AND ANALYSIS OF OPERATIONS

An analysis of these numbers, broken down by types of assistance, allows further measurement regarding the performance of the HOPWA program. One such analysis shows the increase in the number of short-term housing units (or beds) with supportive services that eventually allow the client to maintain or access permanent housing at the completion of the short-term program. In FY 1998, the number of short-term units was 24,000, an increase of 1,250 over FY 1997. In FY 1997, this

number was 22,750, an increase of 2,250 units over the FY 1996 figure of 20,500.

Also significant is the increase in the number of housing units (or beds of supportive housing). In FY 1998, 13,300 units of rental assistance or facility-based housing is estimated. In FY 1997, the number of units was 13,095, an increase of 1,395 units over the FY 1996 figure of 11,700.

### HOPWA – Types of Assistance

	Number of Units			Number of People		
	1996	1997	1998	1996	1997	1998
Rental Assistance (1-3 years)	6,000	6,825	7,300	7,500	8,554	8,760
Short term rent, mortgage and utility payments to prevent homelessness, and short term facilities	20,500	22,750	24,000	25,625	28,210	28,800
Community residences, Single Room Occupancy dwellings, and other facilities with construction rehabilitation, acquisition, and operation costs and services	5,700	6,270	6,000	7,125	7,735	7,200
Other services, including supportive services, housing information and technical assistance to non-profit organizations	—	—	—	18,000	20,020	20,900
<b>TOTAL</b>	<b>32,200</b>	<b>35,845</b>	<b>37,300</b>	<b>58,250</b>	<b>64,519</b>	<b>65,660</b>

# Provide Empowerment and Self-Sufficiency Opportunities for Low-Income Individuals and Families, Particularly the Nation's Poor and Disadvantaged

This section covers the following major programs:

***Neighborhood Networks***

***Community Development Block Grants***

***Economic Development Initiatives***

***Section 108 Loan Guarantees***

The Department is working with community organizations, States, cities, and other Federal agencies to effectively implement this objective. The Department proposes an initial four-pronged action plan to begin implementing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996:

- Creation and retention of jobs;
- Using tenant-based rental assistance strategically to link welfare recipients to jobs through innovative uses of incremental housing assistance and regional counseling;
- Coordinate housing assistance with Welfare Reform efforts; and
- Providing and leveraging services to help welfare recipients make the transition from dependency to work through expansion of the Bridges to Work initiative, funding for Public Housing Supportive Services, expansion of Neighborhood Networks learning centers in assisted housing, and the Youthbuild program to provide access to education and job training.

HUD is in a unique position to assist in helping people move from welfare to work. Through public housing, Section 8, and CDBG target areas, HUD programs have a physical presence where the poor live. HUD programs provide flexible assistance capable of effecting different interventions that may be necessary to promote self-sufficiency. HUD can both provide the assistance needed to create and retain jobs and provide the training and other services that lower income individuals need to be able to take advantage of those jobs. Flexible formula grants, like CDBG, let communities take advantage of more restricted funding provided by other agencies. CDBG, for example, can fund local plans for promoting self-sufficiency. It can also fund services that may be needed to help people take advantage of opportunities provided by other agencies.

## Neighborhood Networks

Neighborhood Networks (NNs) were established at the end of FY 1995 to enhance the self-sufficiency, employability, and economic self-reliance of low-income families and the elderly living in HUD-insured and -assisted multifamily properties.

A total of 86 Neighborhood Network Centers with approved business plans were opened in FY 1998, while 241 were opened during FY 1997, and 106 were opened during FY 1996.

## DISCUSSION AND ANALYSIS OF OPERATIONS

These Centers provide the residents of the properties and their neighbors with onsite access to computer and training resources. The facilities are designed and operated by owners and tenants with the assistance of local community volunteers and FHA. The Centers can provide the residents with:

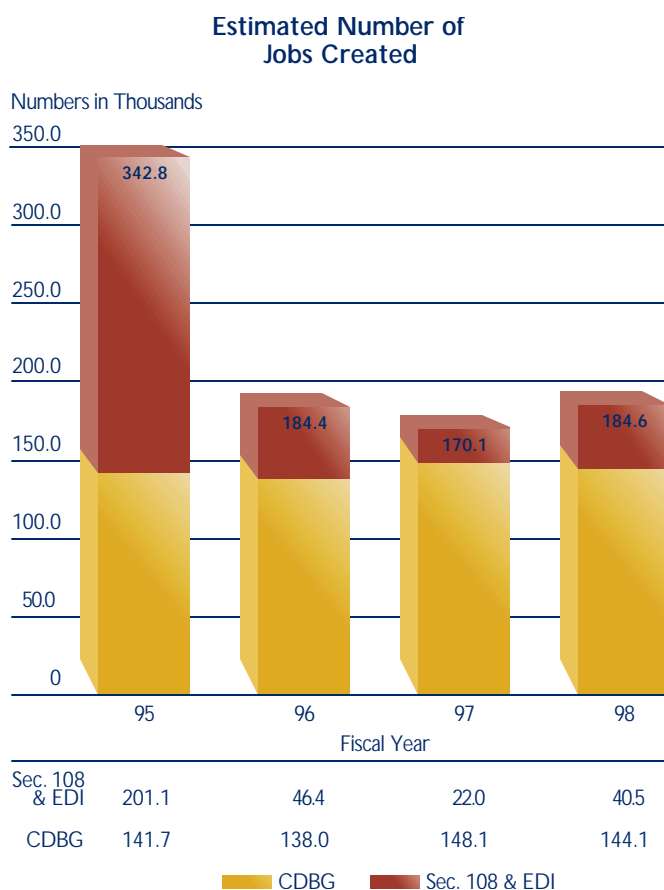
- Early childhood educational programs
- Educational and research opportunities for school-age children
- Adult educational opportunities at the high school, vocational, community college, and university levels
- Typing, word processing, and computer skills
- Access to job data banks
- Micro-enterprise development opportunities
- Participation in online civic and government forums

Linked to the world as never before, disadvantaged groups can gain access to opportunities and ideas that will empower them to participate more fully in our nation's economic, social, and civic life.

This initiative also enhances the value of the FHA multifamily loan portfolio by improving resident morale and income opportunities, reducing maintenance expenses and criminal activity, and increasing marketability.

### CDBG, Section 108, and EDI

The Community Development Block Grant (CDBG) entitlement, non-entitlement, economic development initiatives (EDI), and the Section 108 loan guarantee programs are designed to help stimulate economic activity in distressed areas. These programs will leverage billions of dollars in additional public and private investments, creating additional jobs in States and communities receiving such funding. Using available statistical data, it is estimated that 184,600 jobs were created in FY 1998 by these various programs, compared to 170,100 jobs in FY 1997, and 184,400 jobs in FY 1996.



## PROVIDE SUPPORT FROM DEPENDENCY TO WORK

The number of jobs created is an estimate based on a formula which uses funding (in the case of CDBG) and loan commitments (in the case of Section 108 and EDI) as its starting point. Subsequently, any change in the number of jobs created is a direct result of the level of CDBG funding and EDI/Section 108 loan commitments for that particular year. Total funding for CDBG entitlements and non-entitlements has remained fairly constant over the past four years, which explains why the number of jobs created with CDBG funds during this period has also remained fairly constant. However, loan commitments for Section 108 and EDI have gone from \$1.84 billion in FY 1995 to \$382 million in FY 1998, which corresponds to the decline in the number of jobs created during this period resulting from these commitments.

HUD awards grants to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. Each grantee develops its own program and funding priorities but must involve its citizens in the process. Development of its priorities is the core element of HUD's Consolidated Planning process for a formula grantee.

Each grantee must certify that CDBG funds are used for activities that:

- Benefit persons of low- and moderate-income (at least 70 percent of all funds must fall into this category, as measured over a one-to-three year period selected by the grantee);
- Aid in the prevention or elimination of slums and blight; or
- Meet an urgent community development need that poses a serious and immediate threat to community health or welfare where other financial resources are not available.

CDBG considers compliance with the 70 percent requirement to be one of its major performance measures. The grantee must certify in its Consolidated Plan submission that it is complying with this requirement. Verification of compliance is performed by a close review of the plan and through the monitoring activities of field staff. The most recent reviews showed that over the last three fiscal years, approximately 94 percent of CDBG funds expended by entitlement communities benefited low- and moderate-income persons.

# Promote Equal Housing Opportunities for Those Protected by Law

This section covers the following major programs:

### ***Fair Housing Enforcement***

### ***Program Compliance***

### ***Voluntary Fair Housing Programs***

The mission of HUD's Office of Fair Housing and Equal Opportunity (FHEO) is to enforce the Fair Housing Act and other civil rights laws. It does this by taking proactive steps to identify and combat discrimination in both its most obvious and more subtle forms and to ensure the right of equal housing opportunity and free and fair housing choice without discrimination based on race, color, religion, sex, national origin, disability or family composition. The business objectives for FHEO are designed to enforce the nondiscrimination requirements of the Fair Housing Act and other civil rights laws; take proactive steps to assure that HUD programs are delivered in a nondiscriminatory manner; and affirmatively further fair housing in HUD programs and provide leadership for affirmative programs carried out by other Federal Departments and Agencies. These goals are carried out by:

- Reducing discrimination in housing through aggressive enforcement of civil rights and fair housing laws, the promotion of substantial equivalency among State and local governments enforcing fair housing laws, and the administration of grant programs;
- Promoting geographic mobility for minority and low-income households;
- Integrating fair housing planning into HUD's Consolidated Plans in order to identify impediments to housing choice; and
- Ensuring that programs of other Federal agencies which affect housing choice also further the goals of the Fair Housing Act.

## Fair Housing Enforcement

The Fair Housing Act prohibits discrimination in housing based on race, color, religion, sex, national origin, disability or familial status. HUD's Fair Housing Initiatives Program (FHIP) helps meet the objectives of the Fair Housing Act by providing funding to public and private entities formulating or carrying out programs to prevent or eliminate discriminatory housing practices.

During FY 1997, FHEO was challenged to significantly increase its enforcement efforts, beginning with FY 1997 enforcement actions and ending in the year 2000. FHEO began making progress in this regard in FY 1997 and FY 1998 by increasing the number of enforcement actions from 142 in FY 1997 to 316 in FY 1998, an increase of 122 percent. These numbers are expected to increase proportionally through the end of FY 2000.

One of HUD's objectives for FY 1998 was to provide additional funding to create and support the sustainability of new private fair housing organizations. Grants totaling over \$2.7 million in FY 1998 resulted in support for 10 fair housing enforcement organizations. In FY 1997, \$3.8 million was directed toward this effort through 12-to-24 month grants in support for 13 new organizations to provide fair housing services in underserved areas of the country. This compares to \$3 million awarded in FY 1996 to 13 organizations. The decrease in the number of grants awarded is a result of the decrease in the amount of funds available for this program.

Out of the funding that was available in FY 1998 for enforcement by fair housing organizations under the Fair Housing Initiatives Program (FHIP), five organizations received over \$800,000 to carry out activities specifically designed to assist persons with disabilities. Awards amounting to \$1.4 million in FY 1998 and \$1.35 million in FY 1997 were awarded to other fair housing organizations, civil rights groups, State and local governments, and special interest organizations. These organizations



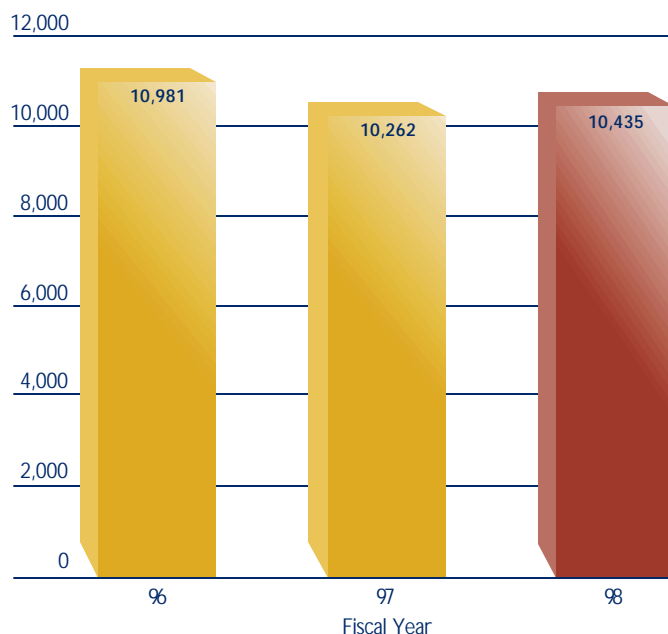
# PROMOTE EQUAL HOUSING OPPORTUNITIES

will also carry out activities that provide protection under all areas of the fair housing law, including for persons with disabilities.

Additionally, HUD encourages each fair housing organization to carry out long-term enforcement projects. In FY 1997, 33 organizations were awarded two year Private Enforcement Initiative grants to carry out long-term enforcement projects in their jurisdictions. In FY 1998, these organizations continue to implement projects under their grants which have resulted in increased enforcement efforts by HUD and its partners. In FY 1998, HUD awarded two year Private Enforcement Initiative grants to 36 organizations, including ten of the new organizations created with FHIP funding.

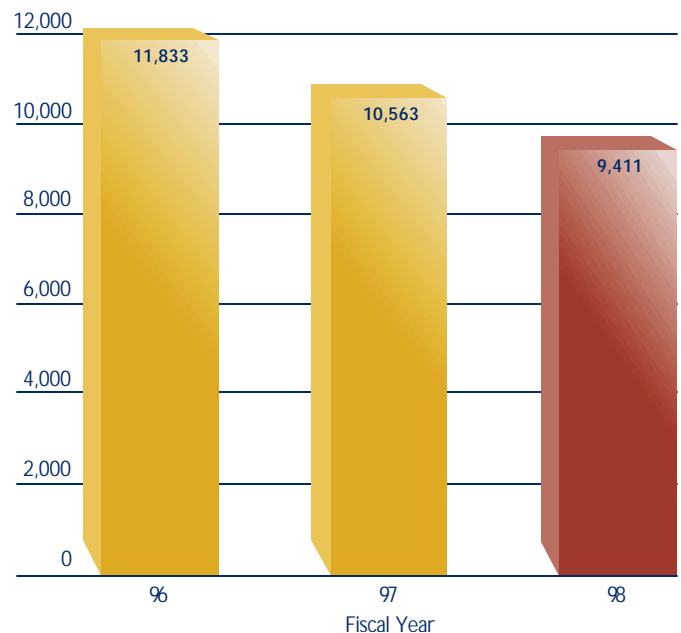
The results of enforcement efforts by both HUD and Fair Housing Enforcement Agencies are illustrated by the number of discrimination cases received and closed.

Number of Discrimination Cases Received



During FY 1998, 10,435 cases were received as compared to 10,262 cases in FY 1997 and 10,981 in FY 1996.

Number of Discrimination Cases Closed



During FY 1998, there were 9,411 cases closed, compared to 10,563 cases closed for FY 1997 and 11,833 for FY 1996. The closures reported include actual closures (Administrative, Conciliation/settlements, No-cause determinations), Cause determinations and transfers of non-cause cases to the Department of Justice. Some of the closures were cases pending from previous years. During FY 1998, 39 percent of complaint closures were by consensual resolution, as compared to 38 percent in FY 1997, and 36 percent in FY 1996.

The percentage of cases remaining open longer than 100 days has fallen steadily. In 1996, 83 percent of the cases closed were more than 100 days old. In 1997 and 1998, this percentage dropped to 78 percent and 76.5 percent, respectively.

## DISCUSSION AND ANALYSIS OF OPERATIONS

In 1997, more complaints were closed than were filed; the number of complaints resolved was 108 percent of the number of complaints received, which was a positive increase from 86 percent in FY 1996. However, in FY 1998, the trend did not continue; more complaints were filed than were closed. Thus, there was a decrease to 89 percent in the number of complaints resolved. The decrease was primarily due to the Department's decision to make closing old, complex, and/or logistically difficult cases the top priority.

### Program Compliance

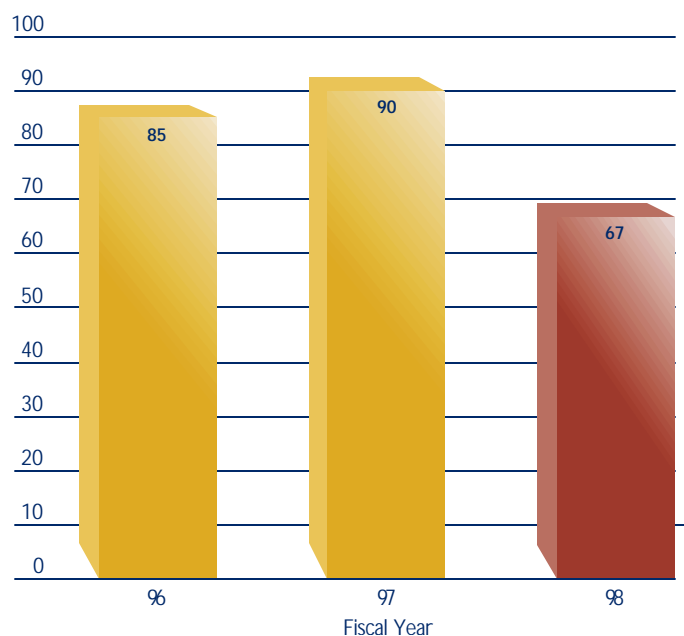
Fair Housing and Equal Opportunity (FHEO) endeavors to increase housing choice in HUD-assisted housing for beneficiaries through aggressive enforcement of compliance with civil rights statutes in all HUD-funded programs and activities, and assures that persons with disabilities are afforded equal access and opportunities to housing of their choice. Compliance is achieved through pre-award reviews, compliance reviews of all HUD-funded programs, the standardized use of corrective action orders, and other sanctions and the issuance of voluntary compliance agreements. FHEO continues to undertake a number of initiatives to achieve this goal, including activities designed to reduce the incidence of segregation based on race and national origin in public and Federally assisted housing. In FY 1998, the following were achieved in furthering the Department's goal of providing fair housing and equal opportunities to its beneficiaries:

- FHEO started processing work on its first case involving systemic discrimination by a HUD housing recipient.
- FHEO conducted 35 compliance reviews in FY 1998 under Title VI of the Civil Rights Act of 1964, Title II of the Americans with Disabilities Act of 1991, Section 504 of the Rehabilitation Act of 1973, and Section 109 of the Housing and Community Development Act of 1974. The 35 compliance reviews that were conducted in FY 1998 were substantially lower than the 137 that FHEO conducted in FY 1997 and 131 in

FY 1996. The reduction is due, however, to focusing FHEO's resources on President Clinton's priority to double enforcement efforts under the Fair Housing Act. Nonetheless, as a result of such limited reviews, a representative number of HUD recipients are better informed about the above laws; thus, increasing the likelihood for a higher level of compliance with these laws.

- FHEO investigated 431 complaints under the above statutes in FY 1998. The 431 complaints are slightly fewer than the 487 complaints that FHEO investigated in FY 1997 and 582 in FY 1996. As stated above, this reduction is due to refocusing FHEO's resources to President Clinton's priority for the Department. FHEO continues to work with recipients of HUD funds to remedy their civil rights problems.
- FHEO executed 67 Voluntary Compliance Agreements (VCAs) under the above statutes for FY 1998, which is a reduction from the 90 VCAs that were executed in FY 1997 and 85 that were executed in FY 1996. The FY 1998 reduction is due to President Clinton's priority. The Department maintains its "get tough" policy with recipients and continues its compliance activity and comprehensive investigation of complaints.

Voluntary Compliance Agreements Executed



## PROMOTE EQUAL HOUSING OPPORTUNITIES

- FHEO processed six Architectural Barriers Act (ABA) complaints in FY 1998, which is lower than the 13 complaints processed under this statute in FY 1997. The number of complaints the Department processes under ABA, however, is driven by the number of complaints the Architectural and Transportation Barriers Compliance Board (ATBCB) refers to this agency for processing. HUD resolves noncompliance findings under the ABA when they are concurrently processed under Section 504 through Voluntary Compliance Agreements.
- FHEO, in FY 1998, participated in 231 training sessions nationwide to educate HUD recipients, housing developers, builders, and architects on the requirements of the above statutes.
- FHEO, in FY 1998, drafted an interim rule on the subject of nondiscrimination based on disability in multifamily housing projects. The rule is in final departmental clearance and clarifies the application of Section 504 of the Rehabilitation Act of 1973, as codified at 24 CFR 8. The interim rule clarifies Section 504 requirements in the homeownership programs and changes the terminology in the regulations from “handicaps” to “disabilities.”
- FHEO, during FY 1998, issued a Section 109 proposed rule, which prohibits discrimination in Community Development Block Grant-funded programs and activities. The proposed rule was published in the Federal Register. The proposed rule outlines procedures for filing complaints of discrimination under Section 109 and provides that hearings for complaints be conducted in accordance with the Department’s consolidated hearing procedures for civil rights claims.
- The Department, during FY 1998, executed a contract to review and compare the three national model building codes and the draft international building code for consistency with the Fair Housing Act’s accessibility requirements and the Fair Housing Accessibility Guidelines. The Fair Housing Accessibility Guidelines provide technical assistance to builders and developers on meeting the design and construction requirements of the Fair Housing Act. The Department wishes to assist the building code organizations in their effort to reduce any inconsistencies that exist between the Fair Housing Accessibility Guidelines and other model building codes to ensure compliance with the Fair Housing Act during the construction of multifamily housing.
- The Department is in the process of conducting a nationwide study of the level of compliance with the Fair Housing Act’s accessibility requirements. This is a research study that will look at random representative samples of newly constructed multifamily housing nationwide to determine their level of compliance and to determine national patterns of conformity with the accessibility requirements. The study will also examine reasons for either conformity or nonconformity with the Act’s requirements. A preliminary report on the first phase of this research study will be available early in FY 1999.
- The Department has revised its Fair Housing Design Manual to provide clear and helpful guidance about ways to design and construct housing which complies with the Fair Housing Act. The Manual provides direct information about the accessibility requirements of the Act which must be incorporated in the design and construction of multifamily housing covered by the Act. It carries out two statutory responsibili-

## DISCUSSION AND ANALYSIS OF OPERATIONS

ties of the Act: 1) to provide a clear statement of HUD's interpretation of the accessibility requirements so that readers may know what actions on their part will provide them with a "safe harbor"; and 2) to provide guidance in the form of recommendations which, although not binding, meet the Department's obligation to provide technical assistance on alternative accessibility approaches which will comply with the Act.

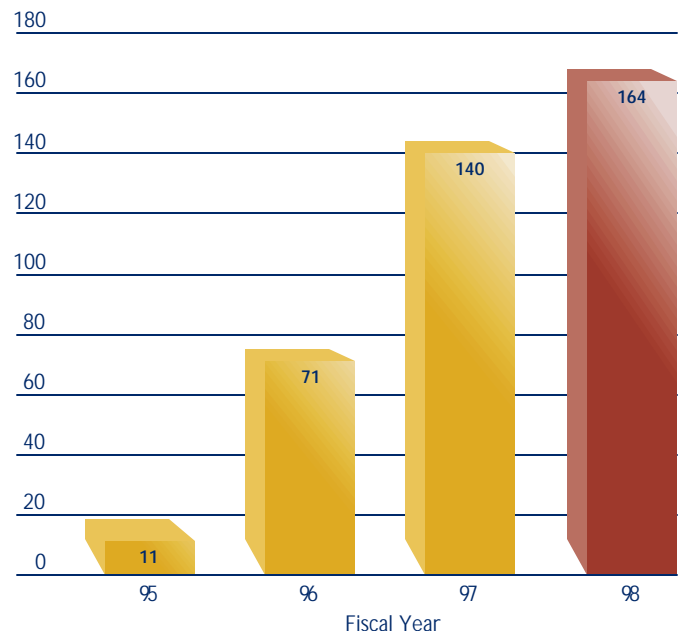
- The Assistant Secretary for FHEO is HUD's designated voting member on the U.S. Architectural and Transportation Barriers Compliance Board (Access Board). HUD is on the Access Board's Ad Hoc Committee for the preparation of revising the accessibility standards for the ABA and the ADA. HUD has submitted extensive comments to the Access Board for the revised accessibility standards.

### Voluntary Fair Housing Programs

HUD establishes voluntary compliance programs with the housing and lending industries to further fair housing. The two main programs are: the Voluntary Affirmative Marketing Agreements and Fair Lending- "Best Practices" Agreements.

HUD has Voluntary Agreements with five national housing and mortgage lending industry groups to promote compliance with the Fair Housing Act, to promote development of affirmative action programs to prevent or eliminate discrimination, and to create an environment that increases mortgage credit to low-income and minority persons.

Cumulative Number of Fair Lending – Best Practices Agreements Negotiated



Fair Lending – Best Practices Agreements (BPAs) are a significant part of HUD's effort to break down the barriers to equal housing opportunity, eliminate spatial separation, and expand homeownership opportunities for minorities and low-income persons by combating inequity in the processing of loan applications. As of September 30, 1998, a cumulative total of 164 voluntary BPAs have been negotiated with individual lending institutions.

Of the 164 cumulative BPAs, 24 were executed in FY 1998, 69 were executed in FY 1997, 60 were executed in FY 1996, and 11 BPAs were executed in FY 1995. The decline in the number of BPAs negotiated during FY 1998 is due primarily to two factors: the first was a greater emphasis on enforcement and program compliance; the second is a flattening in the potential total number of BPAs that can be negotiated (i.e., those institutions that want to participate or can be persuaded by HUD to participate are, for the most part, already participating).